S. HRG. 99-775

TO EXAMINE THE EFFECTS OF THE EUROPEAN COMMUNITY ENLARGEMENT ON U.S. AGRICULTURAL EXPORTS

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

MAY 6, 1986

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE

62-729 O WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

S161-17

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TUESDAY, MAY 6, 1986

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:37 a.m., in room SR-332, Russell Senate Office Building, Hon. Rudy Boschwitz presiding.

Present: Senators Boschwitz, Andrews, Wilson, McConnell, Zorinsky, Leahy, Melcher, Dixon, and Heflin.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. The Committee on Agriculture, Nutrition, and Forestry is going to be holding a series of hearings on agricultural trade, and this is the first of that series. This one deals with the enlargement of the European Community, and the potential impact of that enlargement on American agricultural exports.

We have with us this morning Secretary of Agriculture Richard Lyng in his first appearance, I believe, since his accession to the Secretaryship before this committee, and we welcome you. I notice that your wife, Bethel, is here this morning, and we welcome her as well. I understand that you have some guests, Judge Halley and his wife, Eleanor, from Modesto, CA, which is where you hail from, is that right? We in Minnesota take a little comfort in the fact that you also had a branch of your business in our State, so that you have a sense of Midwestern agriculture, as well as California agriculture.

The accession of Spain and Portugal into the Common Market has certainly strengthened it, and unfortunately, from the standpoint of agriculture, some difficulties are arising as well. Of course, there are difficulties arising, just from the imposition of the variable levy on historically very large exports to Spain and Portugal. While a Customs Union has the rights and privileges of expanding its number and expanding its scope in nations, nevertheless in the event that it imposes itself on customary trade, some form of compensation has to be made.

The Europeans claim that because the industrial duties will be lowered by the entrance of Spain and Portugal into the Union, and this means that some industrial levies may go down, and the Europeans, of course, have said to us that this is the trade-off. While

agricultural duties may rise, nevertheless there is a trade-off by lower industrial levies, and we have responded to that that all levies disappear between the rest of the European Community and Spain, and Portugal. So we do not see that we will gain any advantage by the lowering of industrial levies going into Spain and Portugal.

In addition to the variable levy, there are specific domestic consumption quotas on grain imports and oilseed quotas in Portugal and other types of restrictions that clearly are violations of GATT, so we look upon them with considerable chagrin and with great seriousness. I trust that the Europeans get a sense of what the Congress much more so, I think, than the Executive, Mr. Secretary, that the Congress has a very strong feeling about the barriers that have been erected to trade by various countries, including the Europeans.

This hearing is being conducted at a particularly appropriate time inasmuch as Secretary Lyng returned from Europe 2 or 3 weeks ago. Ambassador Yeutter also was in Europe at that time and making the case to the Europeans of what we feel about the accession of Spain and Portugal, and the problems that they are bringing.

This, I might say, is not just another squabble—at least, I do not look upon it as such. We seem to have an ongoing set of squabbles with the Europeans about our trade relations, particularly in agriculture. This is not just another one of those squabbles. We would very carefully point out that the Europeans—certainly, this is the strongest confrontation that has the most serious disputes that has erupted since I have been here in the Senate over the past 7½ years.

I might say in passing, Mr. Secretary, that after the March 1 announcement of the accession of Spain and Portugal, we, in a very careful and studied way, took, I think, 5 or 6 weeks before we determined what would be done from our side so that we could study the response that we should make in a careful way.

It was interesting to note by contrast that the European Community took almost a nonchalant view of the GATT Agreement—perhaps it does in general. They demonstrated that by a very hasty, and I would call it even a flippant decision, the possible counterretaliation that they did in days, certainly less than a week, after we took action that I thought was very studied and appropriate and also very thorough.

So while I am very much in favor of free trade, we certainly cannot allow these new barriers to be erected against our agricultural trade.

Trade with the Europeans has been declining. It is still a trade that we have considerable advantage of—as I recall the figures, about $5.3 billion exporting to Europe, and about $1 billion coming back; but nevertheless, a very sizable amount of our exports are going to be imposed, and certainly I think $625 million of grain trade to Spain may be lost in its entirety. So this is a matter of great importance, and as I say the almost nonchalant attitude of the Europeans with respect to what they would do and the attitude they take has been particularly disturbing.

Senator Zorinsky, do you have an opening statement?

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. Mr. Chairman, this hearing is timely in view of the pressing need to maintain and expand export markets for U.S. farm products. Recent actions of the European Community threaten access to markets for our farm exports and ongoing export enhancement practices of the EC have been roundly criticized as being unfair.

I hope that this hearing will call to the attention of the administration the need for immediate action to counter or offset these adverse actions.

The EC's agricultural policy could further damage the U.S. farm economy.

As a condition of entry to the European Economic Community, Spain and Portugal were called upon to impose new quotas and tariffs on certain agricultural products, notably corn and soybeans.

In 1984, U.S. exports of soybeans and soybean products to Spain and Portugal amounted to more than $600 million, and corn exports, exceeding 5 million metric tons, were worth an equivalent amount. A sales loss of this magnitude would be devastating to this Nation's financially pressed farmers.

The European Community argues that these restrictions are necessary because Spain and Portugal are major producers of olive oil, a competitor of soybean oil and, without the restrictions, the European Community's surplus of edible oils will increase.

The Community further argues that the trade limitations are only temporary and will be phased out within a few years. However, a larger and more troubling concern for U.S. farmers is the possibility that the EC will not treat import limits as temporary measures, but will, instead, extend the trade restraints throughout Europe and undercut a market that takes some $2 billion of soybean and soybean products and billions of dollars of U.S. feed grains.

Because of these concerns, I cosponsored Senate Concurrent Resolution 129, a sense of the Congress resolution expressing opposition to the restrictions and urging the President to use to the fullest extent his authority to respond to such trade practices.

Although I am pleased that the U.S. negotiators subsequently arranged a delay of the quotas and tariffs, further steps must be taken to maintain our foreign markets.

The need for immediate action should be apparent, because the export market is shrinking quickly. The farmers in my State and across this Nation have been badly hurt by the failure of this administration to act decisively to shore up eroding export sales.

In calendar year 1985, U.S. farm product export sales declined by record amounts, measured both in value and by volume. Agricultural products, for example, in export volume, shrank by 28 million tons to less than 119 million tons. This reduced volume is more than 25 percent below the agricultural export volume of 1980.

The value of agricultural export shipments fell nearly $9 billion last year. With agricultural export volume at $29 billion, the U.S. agricultural trade surplus was reduced to $9.1 billion in 1985, the smallest surplus since 1972.

Wheat export volume was nearly halved in 1985, declining 17.4 million tons, to 24.8 million tons. Wheat export value amounted to less than $3.8 billion, a reduction of $2.9 billion from 1984. Feed grain export volume totaled 51.3 million tons, with a value of $6 billion. At these levels, U.S. farmers absorbed another 6.4 million-ton loss of sales that cost them $2.1 billion in lost revenues.

U.S. soybean exports—which had increased in volume each year for nearly 20 consecutive years before 1983—declined for the third straight year in 1985. Soybean exports were off by 2.6 millions, with the lost sales equal to $3.7 billion.

Mr. Chairman, some of this loss of export sales can be traced to unfair export competition by the European Community. For example, during the period 1977-78 to 1984-85, the European Community's share of the world wheat market more than doubled, from 7 percent at the beginning of that period to 16 percent at the end of it. Over the same period, the U.S. market share declined by about 20 percent.

The European Community has captured a substantial portion of the U.S. grain export markets through the use of its Export Restitution Program. Restitution payments on wheat exports, essentially export subsidies, have reached $90 per metric ton, or some $1.50 per bushel.

Nebraska farmers can compete with farmers of any nation, but they cannot compete against foreign treasuries.

Mr. Chairman, I look forward to reviewing today's testimony, and compliment you for bringing this very most important and timely matter before the committee.

Senator BOSCHWITZ. Thank you, Senator. I certainly agree that the Europeans have looked upon the exceptions to the cap that are available for soybeans and corn gluten as something they have wanted to close, and I think that they are using this mechanism to achieve that end.

Senator Andrews, do you have an opening statement?

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator ANDREWS. Of course, Mr. Chairman. Thank you.

It is good to be here. Mr. Secretary, I applaud you and what you are saying as far as getting moving on getting a broader export potential for our country. When we are dealing with the Economic Community, I think it is long past time that we remember the statistics involved.

Last year alone, our Treasury spent $135 billion in defense of NATO—$135 billion. That $135 billion is more per American person than the Europeans spend per person to defend their own freedom. Now, this is important. But it ceases to be the cause for, shall we say, any kind of satisfaction when they fail to remember that those ships and those planes and that manpower and those rockets are there as a product of the American economy, and they keep kicking our economy in the tail.

How long, the question should be, can we continue to spend $135 billion—that is almost half of our defense budget, Mr. Chairman—how long can we continue to spend that much of our defense

budget for a group of nations that is important to be aligned with, but somehow or another, they do not get through their heads the fact that these weapons and this manpower is a product of the American economy.

I was in Italy a couple or 3 years ago, talking to one of their Ministers overlooking a harbor. One of our aircraft carriers was in the harbor, and that Minister was making polite small talk, talking about how wonderful it was to have our economy aligned and our people aligned in defense, mutual defense, against the Eastern aggressor, and how it would prevent World War III.

I said, "Yes, that is very important. But Mr. Minister, you have got to realize that that carrier down there is a product of the American economy. From the amount of Durum wheat you have been buying from Argentina lately, maybe you would like to have an Argentine carrier."

He winced a little, and I added, "You know what happened during the Falklands; that Argentine carrier hid."

He said, "Senator, you make a great point."

Mr. Secretary, I hope you can make that point to these European allies. As our colleagues point out so well, farm families in this country can compete with farm families anywhere in this world, but they darned well cannot compete with foreign governments.

I am losing my patience as a member of the Defense Subcommittee, with spending and spending and spending for this mutual thing we have going with our NATO allies and have them forget totally that mutuality ends when it comes to trade.

In the European Economic Community, $6½ to $10 a bushel wheat is fantastic, but when they add $2 to $3 to $4 to $5 import fees for our wheat, it ceases to be, shall we say, economically sound.

Mr. Secretary, I have to also point out that somehow or other, we ought to indicate to the American farmer that there is a major change in the farm bill, the farm law that they are now signing up under. True, it has got the same target price. Some of us would have liked to have seen the target price go up.

But given the problems we have in budgeting here in the Congress to keep that on a level plane, we did pretty well; in fact, we had to scrounge around on both sides of the aisle to get enough votes just to keep that target price level.

But there is one important thing in that bill, and that is that the loan price goes down, protecting the farmer on down, with an additional payment, as you know so well, cheaper to the taxpayers than putting it in the bin and storing it, but it also gives us for the first time an ability to be aggressive exporters.

We have kept an umbrella over the Canadians for too long with our higher loan rate. They sold for a nickel under us; they enjoyed a buck a bushel advantage on freight rates, another buck because of the differential in our currency.

I think this farm bill, with some aggressive action on the part of you, Mr. Secretary, could well drive the Canadians to the conference table where they would agree to an international grains agreement wherein the four countries that are major exporters of wheat would see that we get cost of production.

I understand we have not been getting it lately, and I know why—because the Canadians keep selling down and down, and they are sheltered, and other nations have other protections. But if we can get them to the conference table and get some kind of international grains agreement worked out, it makes a lot more sense than selling to the Soviet Union and the People's Republic of China and the rest, grain below our cost of production. It in effect amounts to a subsidy of their Government.

Finally, Mr. Secretary, there are other ideas being rattled around this place of amendments to this farm bill. One of them says we should get the funding for it from the first user. That is nice, sounds great. That means in the case of wheat, however, we will have to cut production by two-thirds because the only people you could assess as first users are those customers here in the United States. I do not think there is anyway that you could tell the Soviets or the Europeans or the Japanese that they would have to pay our cost of production if somebody else is willing to sell it to them under that.

So Mr. Secretary, I would hope that your aggressive actions in this field would put to rest that kind of concept that comes straight out of Alice-In-Wonderland, and would instead concentrate on those weapons that this new farm bill gives you, along with the Export Enhancement Program that Senator Zorinsky and I, among others, fought hard for about a year ago and do what we can to penetrate these tariff barriers and give a fair shake to American agriculture. Meanwhile point out to the world that our country can, and does produce, enough food for itself with a lot leftover, and that is perhaps the greatest strength of our country, if we were only wise enough to realize it.

It is good to have you onboard. It is good to have you here in your first appearance as Secretary. We are confident that you are going to provide the aggressive type of leadership we have needed for so long.

I have read your statement. I think it is an excellent one.

I will point out that I have to be chairing another subcommittee, Mr. Chairman, or I would be here. But I have read your statement; I applaud you for what is in it. We are looking forward to working with you in trying to resolve this problem that has been around for too darned long—in fact, it has been around for a decade or more. Hopefully, we can get to work and get it solved.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Thank you, Senator Andrews.

Senator Heflin had to go to the Judiciary Committee and asked that his statement be made part of the record.[1] I ask unanimous consent that it be made part of the record and I understand, Senator, that you will have to go.

Your comments were interesting about the defense aspects.

I would point out that the Italians spend 2.2 percent of their gross national product on defense; we spend 7. The reason they can spend so little is, as you say——

Senator ANDREWS. Is because we spend so much.

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[1] See p. 55 for prepared statement of Senator Heflin.

Senator BOSCHWITZ. We have got the umbrella over the European Community, and provide——

Senator ANDREWS. I would not resent that nearly so much if they would buy our Durum wheat instead of the Argentine.

Senator BOSCHWITZ. Senator Melcher, do you have an opening statement?

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. I do have a couple of comments, Mr. Chairman, thank you.

Mr. Secretary, in your statement, you commented about American meat that would be exported to Europe. Most of that is in tongue, liver, and other products that we do not use much of here.

I would caution against taking their requirements on inspection too lightly. We copied our meat inspection law after them in the early days of this century. But we have relaxed somewhat in some of the requirements. They have not, and will insist on our meeting their requirements on health inspection prior to accepting products from the United States.

If they do shut off the plants sometime this summer, that they have identified as not complying with their requirements on health inspection, that would be a very serious blow to an already hard-hit livestock industry here in the United States.

The relaxation that we have permitted in our meat inspection regulations are really not all that costly. When we were doing that relaxation over the past 15 years, sometimes we did it because we thought that veterinarians were too hard to find for meat inspection service. I do not believe that is the case as of now. I think there are plenty of veterinarians available. Some of the requirements on which the Europeans still insist on the basis of health, could now be augmented here or renewed here in order to avoid losing that market.

I also want to make one comment about GATT. One of the reasons I was opposed to adoption of the Treaty and all that went with it, was that it was very favorable to the European Community—and still is.

This badgering back and forth between the Community and ourselves has proven to be a pretty hard proposition. They rely on GATT, and it is something to which we have agreed. Section 301 protests take so long that before they are over, the situation has changed anyway. So that has not given us much relief.

I hope that you as Secretary on agricultural exports will be very hardnosed and very insistent. Where it will come into play more than in direct trade with the Community will be when they protest whatever we do to other countries outside the Community in making arrangements for agricultural trade.

I earlier expressed my confidence in your ability, Dick, and I have not changed my thinking on that. Good luck to you. You will get good backing out of this committee in your endeavors with the Community.

Senator BOSCHWITZ. Thank you, Senator Melcher.

Senator Wilson, do you have an opening statement?

Senator WILSON. I have, Mr. Chairman. However, Senator McConnell has a conflicting duty with the Judiciary Committee, so I will defer to him and then ask that I make my statement.

Senator MCCONNELL. I thank the Senator from California.

Mr. Chairman, I have the same Judiciary commitment that Senator Heflin has, and would like to have my statement placed in the record.[1] I say to Secretary Lyng, welcome, and I am sorry that I cannot stay for his remarks.

Thank you.

Senator BOSCHWITZ. Thank you, Senator McConnell.

Senator Wilson.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Thank you, Mr. Chairman.

First, let me thank you and commend you for holding this hearing this morning. Your timing could hardly be better, since this trade dispute unfortunately looks like it could erupt into a full scale war, a trade war of the kind that will benefit no one unless we are able to deal with it, as in fact it should be dealt with.

I am particularly pleased that our Secretary is with us this morning. I think already in his career he has indicated the confidence that Senator Melcher has just expressed and that the entire committee expressed in our very resounding vote for his confirmation.

He and Ambassador Yeutter have done an outstanding job in letting the Europeans know that finally, this time, the American farmer cannot be made to stand the gap and pay the price for the enlargement of the Community. They have taken what some think to be a hard line.

Well, it is the only line that we can afford. I look forward to the testimony. I have read the testimony, and I look forward to Secretary Lyng's exposition of precisely what moves are available to us.

I think that Senators on this committee understand well what he is facing, because many on this committee have for some time expressed their concerns about the effects of the accession on U.S. agricultural exports—Senator Zorinsky and others this morning have recited the grim statistics of the sharp decline in U.S. agricultural exports in no small part because of the effect of the subsidies and the other unfair trading practices on the part of the EC with which we have had to deal.

Twenty of my colleagues, including you, Mr. Chairman, early in March joined me in a letter to the President, urging him to pursue to the fullest extent possible the American right to compensation, under the rules of international trade, specifically under the GATT Agreement, by urging that he prepare and use a comprehensive list of items for retaliation against the EC.

I am encouraged, if not taking any joy in the fact that I am encouraged, that on March 31st the President announced such a list of retaliatory items. It includes: imports of European wine, cheese, mineral waters, pork, and cakes.

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[1] See p. 53 for the prepared statement of Senator McConnell.

By announcing these possible measures, the President has made it clear that the United States is prepared to defend the American farmer. Regrettably, in response to our assertion of legitimate rights expressly provided for under GATT, I repeat, the EC has again targeted many American agricultural targets for reprisal or counterretaliation.

This time, as in the past, many California products are the target: Wine, prunes, fruit juices, California's 185 million dollars' worth of almond exports to Europe; all are on the EC's hit list.

Although California producers ask for nothing more than a fair market in which to compete, once again they may be the victims of unfair agricultural trade practices by other governments, specifically by the EC.

It is California again which might be made to pay the price to defend American grain and soybean exports. So many of those here today may wonder why a Senator from California feels so strongly about the enlargement of the European Community, which for now harms directly our grain and soybean producers.

Well, I would hope that the reasons are clear.

It is not only because we share a concern for our brothers who are soybean and grain farmers. Ultimately, the enlargement of the Community will affect all sectors of American agriculture. As a wise man once said: "If we do not hang together, we will all hang separately."

Thanks to the subsidies of the European Common Market and their common agricultural policy, Spain, and Portugal may become the Californias of Europe, producing and exporting abundant supplies of subsidized—heavily subsidized—fruits, nuts, and vegetables, and as those subsidies continue to flow, Spain and Portugal will threaten to strip California exporters of their hard-earned markets in Europe and elsewhere abroad in the same way that American grain and soybean exporters are currently losing their European markets.

In my view, all of American agriculture must unite behind this issue because it will eventually affect every American farmer.

We can no longer afford to divide American agriculture so that the EC can conquer it. We have had instances of that in the recent past. Those in the American Soybean Association, not because they were unsympathetic, but because they were fearful, hesitated to support even a modest step like the Wine Equity Act.

We must look ahead 10 years—the 10 years that it will take for Spain and Portugal to fully integrate their agriculture with the EC. Unless American agriculture stands united now from the outset to defend the legitimate rights of every American farmer in this process, agricultural producers of numerous States, of numerous other commodities, may permanently lose many export markets.

Mr. Chairman, again, my thanks to you and to Secretary Lyng.

Let me, by way of announcement and by way of invitation, tell you that tomorrow in this room at 10, Sir Roy Denman, the head of the EEC delegation in Washington, will be present. His diplomatic status precludes him from testifying before a congressional committee, but he has agreed to meet with interested members of this committee.

I have sent that invitation to the 20 cosponsors of the letter that I described earlier, but the invitation extends to all members of this committee, and indeed to all Senators, who are as concerned with the looming struggle, and who hope that it can be merely a skirmish of the kind that avoids a full scale trade war.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Thank you, Senator. I will indeed be here tomorrow morning.

Sir Roy is a very articulate and able defender of the European point of view.

Senator Dixon came in and gave me his statement and said that he, too, has to be at another committee, and I ask unanimous consent that his statement be made a part of the record.[1]

Mr. Secretary, we now turn to you. I would point out to you that eight Senators were here during the course of this, and with all the other committee hearings that are going on this morning, it really is testimony to the interest that we take in this particular issue.

When you were nominated, and eventually passed by the Senate to this job, many Minnesota farmers were concerned. They wanted somebody from the Midwest and so forth. As I mentioned earlier, I told them that you indeed had a business in Minnesota and so had a sense of what they were about. I also said that you were very savvy and shrewd, and I even used the word "cagey". I note that when we got together with you at your office approximately a week or 10 days ago, you noted that you had spent three and a half hours with the President the preceding week on this issue, and that you had gotten unanimous agreement in the Cabinet Council with respect to the action that was taken.

Certainly, I think that this is evidence that what we had hoped for, we are now getting by way of performance, and that you are bringing the rest of the Cabinet around to seeing agriculture from a very practical point of view.

So the hope that Senator Melcher expressed that you would be hardnosed and persistent, I think is already bearing some fruit, Senator, and we welcome you once again to our committee, and after quite a bit of introduction, we look forward now to your testimony.

STATEMENT OF HON. RICHARD E. LYNG, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Secretary LYNG. Thank you very much, Mr. Chairman and members of the committee.

I appreciate the opportunity to discuss with you the enlargement of the European Community to include Spain and Portugal and the implications that this has for U.S. agriculture. Enlargement will cause some very real problems for us. That is why we have been persistent over the past few years in requesting that the European Community begin consultations with us on the enlargement issues.

The situation surrounding this EC enlargement is very different from previous enlargements in several respects. An important difference, of course, is the state of U.S. farm exports. U.S. agricultur-

[1] See p. 54 for the prepared statement of Senator Dixon.

al exports have declined by more than a third since the last accession in 1981 when Greece became a member.

The United States balance of trade in agricultural products has shrunk by $19.6 billion since then. We are simply not in a position where we can watch agricultural markets which mean so much to our farmers erode further.

This is compounded by a growing frustration over the lack of progress in resolving some of the longstanding trade issues we have with the EC. The European Community's common agricultural policy poses many trade problems for the United States.

In recent years, the CAP's high, essentially open-ended support prices for most commodities have encouraged large EC surpluses during a period of chronic world surpluses and sagging world demand. The EC has then used export subsidies to move its surpluses, causing serious damage to U.S. export earnings in Third World markets.

In addition to these problems, the current enlargement has been handled very differently than those in the past. Procedurally, the EC has never before given so little advance notice before implementation of sensitive trade restrictions of such large impact to the United States.

The short notice—about 3 weeks—left us with no realistic opportunity to discuss and negotiate the issues involved in enlargement in advance. That opportunity is required by the rules of the General Agreement on Tariffs and Trade.

This is especially disturbing because we have been urging EC officials for more than 2 years to consult with us before locking into enlargement actions.

Our goal through all of this has been to resolve problems through negotiations. We do not want a trade war with the EC. However, our position is that we must defend our legitimate trading rights. There has been complete consensus on this within the administration, in the Congress—as evidenced by the recent Senate resolution, and within the U.S. agricultural community.

Our view of the enlargement is influenced by much larger considerations than the damage to our grain market in Spain and Portugal, which has been as high as $900 million. We need to look only to the effects of previous enlargements to see why.

When Britain joined the European Community in 1973, it produced some 15 million tons of grains and imported another 7 million tons—over 2 million tons from the United States. We assumed that we would lose much of that market to the French over time as the levies were staged in.

But under the influence of the EC's extraordinary incentives to produce, the British themselves now export grains, and the EC's grain surpluses compete with us in markets around the world.

In fact, when the United Kingdom, Denmark, and Ireland joined the EC, the nine countries were net importers of close to 12 million metric tons of grain. Today, they export 18 million tons, a difference of nearly 30 million tons.

The growth in the EC production has been accomplished in spite of a slight decline in the area utilized. At the same time, the high support prices have contributed to a drop in total domestic consumption of some products, especially grains. This is an ominous

indication of what might happen by the extension of EC grain policies to Spain and Portugal.

It is important for the committee to understand that this time, before either consultations or negotiations, the EC has applied levies in place of GATT bound duties, increasing protection by more than five times.

In addition, the EC has established GATT-illegal quotas in the oilseed sector and minimum purchase requirements for EC grain in Portugal.

The issue now is not whether the EC will apply levies. The United States under the GATT, has the right to compensation as a result of EC action. The quotas are illegal and should be removed. The United States will not pay the price for EC enlargement.

The integration of the Spanish and Portuguese agricultural systems into the European Community's CAP poses serious problems for U.S. agriculture. These countries together represent a $1.6 billion market for U.S. farmers. The United States likely will lose much of its grain market in Spain and Portugal after the European Community applies its variable levy system to those countries.

We are also extremely concerned about the fact that when the European Community announced its proposed new tariff schedule for the enlarged Community, it left blank the tariffs for 65 agricultural items, including such key items as oilseeds, oilcakes, and meal, vegetable oils, nongrain feed ingredients, tobacco, and wine.

European Community imports of these items from the United States were valued at $4.2 billion in 1984, or one-third of total U.S. agricultural exports to the Community.

The blanks in the European Community's proposed tariff schedule are a possible indication that the European Community may once again be considering plans to restrict imports of oilseeds and products, nongrain feed ingredients, and other agricultural commodities. It is possible that the Europeans would like to close what they regard as loopholes in the EC agricultural trade regime represented by bindings previously negotiated and paid for by the United States.

The European Community may claim that the compensation owed U.S. farmers for such restrictions will be covered by the reduction in Spanish and Portuguese industrial tariffs when those two countries adopt the European Community's tariff schedule.

However, the United States rejects this so-called credit concept for two fundamental reasons. First, it implies that the previous concessions we received through negotiations could be withdrawn and the compensation for that withdrawal dictated, not negotiated, by the European Community.

Second, the European Community asserts that our industrial trade with Spain and Portugal will benefit from lower duties. However, this ignores the fact that there will be no duties on industrial imports from other European Community members. Our experience with past European Community enlargements indicates that any benefits from lower tariffs for third country suppliers usually are more than offset by the fact that duties are totally eliminated for members of the Community, and it is these countries which consequently reap the big trade benefits.

While the United States supported the accession of Spain and Portugal to the European Community, we have told EC officials many times that U.S. farmers should not and would not be made to pay the costs of this enlargement.

To that end, we have informed EC officials that, as of July 1, we will increase tariffs on a number of EC products if the European Community does not compensate us for the losses caused by the higher tariffs on our corn and sorghum exports to Spain. Such compensation is required by the General Agreement on Tariffs and Trade.

We have also informed the European Community that we will take action this month against a number of European Community products—action which mirrors the limits now scheduled to be imposed on Portugal's purchases of oilseeds, oilseed products, and grain.

U.S. exports of oilseeds to Portugal were valued at $132 million in 1985, and we sold them another $63 million in grain. The United States has been the major supplier of grains to Portugal, with over a 95-percent market share in recent years, due in part to the availability of GSM-102 export credit guarantees.

There was no resolution of the accession issue when U.S. Trade Representative Yeutter and I met with EC Commissioners Andriessen and DeClercq in Paris last month. As disappointing as that is, I think the meeting was helpful.

It should now be crystal clear to the European Community that the United States intends to carry out the policy outlined by the President on March 31. There should no longer be any doubt that the United States will defend its trade interest and our legitimate GATT rights.

I believe they now understand that the United States will not allow measures covering nearly $1 billion in trade to be in place while we await the outcome of a lengthy negotiating process.

The first step toward resolving this issue was taken May 2, when the United States and the European Community met for an initial round of compensation negotiations. While we are still very far apart, the European Community at least understands the immutability of the July 1 deadline for compensation for corn and sorghum. We also took this opportunity to suggest that since U.S. grain exports are being affected, the compensation should be in a form that will benefit the grains sector. Further negotiations will be scheduled soon, but while we hope to have a successful resolution by July 1, we will stand fast on our commitment to retaliate if we have not received compensation by then.

In addition to the enlargement issues, we are also confronting several other serious trade problems with the European Community.

The European Community plans to institute the third country red meat directive on January 1, 1987, which will require individual inspection and certification by European Community veterinarians of United States meat plants wishing to export to the European Community. Because the directive prohibits certain practices common in United States meat production, its strict application would severely disrupt United States meat exports to the European

Community. The U.S. Government is now studying whether to launch a 301 case on this issue.

The European Community also has announced it will ban use of all nontherapeutic hormones in the production of meat as of January 1, 1988. As of that date, meat imported from third countries must be guaranteed to be from hormone-free animals. This ban, for which there is no scientific basis, has potentially serious implications for the United States $100 billion-plus meat exports to Europe. It would be practically impossible for us to comply with the new rule.

The European Community continues to ignore a GATT panel recommendation to reduce its tariff preferences in fresh oranges and lemons from the Mediterranean region because they have nullified or impaired United States bindings with the European Community.

In response to the lack of progress on this issue, the United States increased its duty on EC pasta last year in an attempt to bring the matter to a head. The European Community responded by raising its duties on walnuts, and lemons, and increasing its export subsidies on pasta. Both sides have continued formal efforts to resolve the issue.

The European Community has also retaliated against United States import quotas on semifinished steel products imposed last year by setting quantitative limits on imports of United States tallow, fertilizer, and coated paper. U.S. shipments of tallow to the EC are limited to an annual rate of 107,000 metric tons from now until 1988. These restrictions do not apply to U.S. tallow exports to Spain and Portugal.

EC-10 imports of tallow from the United States over the last 5 years have averaged 154,000 tons, about $65 million, annually.

These problems and those of enlargement are intensified by the fact that the course of EC agriculture is of prime importance to us. The Community is at the same time the United States largest market and its leading competitors in world agricultural trade.

We will continue to urge the European Community to adhere to international trading rules and to compensate the United States in the areas affected by the enlargement through every means at our disposal. The trade problems we are currently having with the European Community point up the need to move ahead aggressively with the reform and modernization of the General Agreement on Tariffs and Trade in the upcoming round of multilateral trade negotiations.

It is essential to the orderly conduct of trade and to the benefit of U.S. agriculture, to write more effective GATT rules for controlling unfair trade practices such as export subsidies, to improve access to foreign markets, and to impose greater discipline on the use of food, plant, and animal health restrictions. This administration will actively pursue these goals in the new trade round.

That concludes my statement, Mr. Chairman. I will be happy to answer any questions that you or other members of the committee may have.

Senator BOSCHWITZ. Thank you, Mr. Secretary.

Throughout your statement—first, I might say on page 4, you say that, "EC imports of these items"—and you are talking about oilseeds, oilcakes, and meal, vegetable oils—amounted to $4.2 billion

in 1984, or a third of total U.S. agricultural exports to the Community.

I do not think our total agricultural exports were three times $4.2. It would be nice if they were. But I thought they were about $5.5 billion or $5.3 billion, if I am not mistaken. So the continuing efforts of the European Community to place some type of restrictions on oilseeds, and corn glutens, and so forth, that were excluded under the Treaty of Rome some years ago, represents about 80 percent of our trade that we presently have.

Secretary LYNG. Yes; I think you are correct. I would like to submit a correction for the record.

Senator BOSCHWITZ. Fine.

I note that throughout you have said—on page 6 you noted that: "Ambassador Yeutter and I met with EC Commissioners Andriessen and DeClercq in Paris. As disappointing as this is, I think the meeting was helpful," you said. You did not express in your testimony what they have said in response and how they have defended their actions that are being taken.

I wonder if you would tell the committee, how have they responded to the assertions that you have made to the threats of retaliation that we have taken, and how have they defended their own actions?

Secretary LYNG. The defense of their actions was simply that they felt that they had notified us, that we had known for years that the accession was going to take place, that the negotiations had been public. They gave no argument about the fact that compensation was owed, but they did not give much credence to our claim that compensation should have occurred before they actually made their actions effective.

More specifically, we requested that they suspend or postpone, or defer taking action on both the Portuguese steps and the Spanish tariffs until after we would take them to a GATT panel. And we agreed that we would abide by the decisions of the GATT panel. We were that confident of our position, and apparently they were, too, because they said they could not do that.

They have imposed these matters, they are in effect, and they refused to compensate for them. They did indicate, however, that they would attempt to accelerate the discussions or the negotiations on the compensation, and that did begin last Friday. So to say that no action took place, I think would be erroneous.

Senator BOSCHWITZ. The Europeans, what did they specifically say, other than of course, they now are imposing their own counterretaliation? What did they say when you came up with this list after a period of 5 weeks or so; of the retaliatory steps that we would take, they responded rather quickly, but what were the conversations, Mr. Secretary, with respect to that?

Secretary LYNG. As far as the Portuguese quotas are concerned, they indicated to us that for 1986, the level of quotas would be high enough so that the quotas would be nonlimiting.

We stated that if that were the case, the quotas that we would take action to institute quotas on European quantities that would be equally nonlimiting; we would mirror their actions. That was the end of that discussion.

Senator BOSCHWITZ. Let me just ask you a relatively technical question; I see that Senator Melcher is not here at the moment, and perhaps it is one that he would ask about the EC ban on nontherapeutic hormones. As of a certain date, the imports or exports into Europe would have to be hormone-free animals. Do the Europeans themselves not use any of the hormones that are in question?

Secretary LYNG. They do use them in parts of Europe, and as I understand it, there is a dispute in their own court system. I believe that Britain uses hormones, and of course, under the Common Market, they are supposed to be able to have free movement from one country to another.

The continental countries, some of them, are objecting to the Europeans doing that. We in the United States have concerns about the use of hormones, and the Food and Drug Administration has set up rather strict rules on those hormones that are harmful. But there is a host of new research developing where there are tremendous gains to be made by using some natural hormones that are perfectly safe. Those are the types that are more involved in the January 1, 1988 decision.

We think that decisions like this should be based upon scientific facts, not on trade disputes.

Senator BOSCHWITZ. I just asked, Senator Melcher, whether or not the hormones—expecting that you will also, perhaps, pursue the issue—whether or not the hormones that the Europeans wish to disallow, whether or not any hormones are used presently by any red meat producers in Europe.

Mr. Secretary, in this morning's news, it was reported that agricultural issues were omitted from the statement issued at the Tokyo Economic Summit which listed priorities for the next round of GATT negotiations scheduled to start in September.

What is the significance of this development, this fact that agricultural issues are not included? Does it mean that agriculture will take a backseat to other economic interests when we sit down to serious negotiations? EC will only want to have substantive discussions on agricultural issues when they perceive that it is in their best interest. What can we do to help them reach that conclusion?

Let me direct the question principally at the omission from the statement made in Tokyo.

Secretary LYNG. Well, I have not read the statement made in Tokyo, but I would suspect that the omission was in the news account rather than in the statement. I do know that agriculture was high on the agenda in discussions of the forthcoming round, in preliminary talks with the Europeans and our representatives that were going to that summit.

So until we have had time to see the whole statement, I do not think I would leap to a conclusion that agriculture is not involved.

Senator WILSON. Mr. Chairman, if I may interject a comment, I think the Secretary is right.

I have been critical that neither he nor Ambassador Yeutter went to Tokyo. On the other hand, to be fair, I am told that in this morning's news, Treasury Secretary Baker has reported that the Summit discussions did focus on agricultural problems and the

need to resolve them in the upcoming GATT round in Uruguay in September

Senator BOSCHWITZ. So it may well be that it was an omission by the press.

Senator WILSON. By the press, yes.

Senator BOSCHWITZ. Mr. Secretary, finally and on a little bit of a different subject, I had a meeting with some number of people who are involved in the international trade of various agricultural products, and they say that the BICEP, the subsidy that we enacted indeed and that we mandated in the Congress, $1 billion, is causing lower exports. For instance, they point to the very low export to the Russians of wheat—150,000 tons, I think, of the 4 million-ton commitment that they made on an annual basis. One hundred fifty thousand tons, or somewhat less than 5 percent, have thus far occurred in this marketing year.

I wonder if you would comment on whether or not you think the BICEP Program is working and whether or not the Congress should in some way reconsider its actions, and what you think the future of the program is?

Secretary LYNG. Yes; the Export Enhancement Program, which is really the successor to the BICEP Program is working. We have announced a number of sales. We have a number of other initiatives that we are working on right now. And we will, I feel confident, live up to the commitment that is called for in that law.

I think, though, that to expect that to solve our export problems would be wrong. We must look to the farm bill itself. As we now move into the new crop harvests, we will see that prices will be lower. As Senator Andrews pointed out, the concept of a new farm bill, with lower loan levels, makes us much more competitive throughout the world, and without any subsidies, we will actually be very much more competitive. I am confident that that will take place. As we go through this transition, we will be using the Export Enhancement Program quite heavily.

Senator BOSCHWITZ. In the balance—I think we have made 30 offers in the Export Enhancement Program, as I recall the number—but in the balance, therefore, you feel that the Export Enhancement Program is a plus to trade rather than a minus.

Secretary LYNG. Yes; it is a targeted program. It is primarily aimed at the subsidized export sales of the European Community. The purpose in flagrantly subsidizing our exports is to serve as a retaliation and to take business back that we have lost because of the European Community's common agricultural policy.

That is the reason that we have limited the applications of the program.

Senator BOSCHWITZ. There was a feeling that we were losing sales, for instance, to the Russians and others who were not the beneficiaries of the Export Enhancement Program.

Secretary LYNG. There may be some truth to that, but it is also quite obvious that the prices that the Argentines and others have offered for wheat, to the Soviets, have been at much lower levels.

Senator BOSCHWITZ. Cheap, yes.

Senator Zorinsky.

Senator ZORINSKY. Thank you, Mr. Chairman.

I heard the same report this morning.

I have attended meetings with the NATO Alliance where France has vetoed NATO's efforts to standardize aircraft, unless we adopted French aircraft designs.

I also was very chagrined at France's refusal to give us permission to fly over their country on the way to Libya.

These actions lead me to believe that the French think they have traded us the Statue of Liberty for our economy.

I would hope that we will continue to pursue the answers to these economic trade questions. I think they present severe obstacles to the successful operation of GATT.

I am opposed to denying Nebraska farmers the opportunity to sell to the European markets. I would hope that we will not equivocate in our efforts to expand export markets.

Senator BOSCHWITZ. It was more in the form of a statement than a question.

Do you wish to respond, Mr. Secretary?

Secretary LYNG. I share your frustration, Senator. I have the same determination that you have to try to do something about this problem.

I might point out that it is not only the Europeans and ourselves that are involved in the GATT negotiations. We have had representatives of many countries that have been to the Department expressing concerns because our new farm bill does make us much more competitive. Just in the short time I have been in office, ministers from Argentina, Australia, Canada, Thailand, and Burma, have come by and have expressed a renewed interest in GATT negotiations.

As a matter of fact, most of the European Community representatives are concerned about the breakdown that is taking place, mainly caused by our new farm export policies.

So I am confident that the GATT negotiations will concentrate heavily upon agriculture, not only because it is a high priority of the United States, but because a lot of other countries, as well as European countries, have expressed that interest.

Senator ZORINSKY. Well, I think we need to point out what precipitated the support for our new farm policy. Our Export Enhancement Programs are intended to overcome the high subsidization of our so-called allies throughout the world.

Our allies came up with a brilliant idea. They decided to subsidize their industry in agriculture and take the world marketplace away from us, using funds they might have otherwise committed to defense.

I believe we should send a clear signal to the rest of the world that we expect them to invest a little of their own tax dollars in defense efforts.

Thank you.

Senator BOSCHWITZ. Senator Wilson?

Senator WILSON. Thank you very much, Mr. Chairman.

Mr. Secretary, I noticed that at page 5, or actually beginning at the bottom of page 4, that the EC is summarily dismissing much of the concern that you and Ambassador Yeutter expressed at your meeting with Commissioners Andriessen and DeClercq, stating that there will be a reduction in Spanish and Portuguese industrial tariffs. And you pointed out that first, that assumes that they simply

are going to claim the offset, when in fact, the bindings or the concessions that have been achieved by us that now will be damaged, are things for which we negotiated. They are simply going to dictate and state by fiat, "You are made whole because the reductions in industrial tariffs will make you whole." And second, as you point out, the greater fallacy is that Europe will actually have no duties on industrial imports between EC members. And, as you are quick to conclude, when the duties are totally eliminated for the members of the Community, it is those countries that are consequently going to reap these enormous trade benefits. So I think you have got that absolutely right.

Now, in addition to quantifying the loss of U.S. exports to Spain and Portugal, and knocking down the argument that they have raised about this reduction in industrial tariffs, has your Department cataloged the agricultural commodities that are grown and processed in Spain and Portugal that will also be sold within the EC, without duties? And has the Department quantified the value of the U.S. exports into EC-10 that will be displaced by the duty-free products that are produced by Spain and Portugal?

Secretary LYNG. We have done a lot of work in that area, and I would be happy to submit the available information for the record.

But I presume that some of these actions are going to be difficult to estimate, because until these countries are fully absorbed, the full effect will not be known.

Senator WILSON. I think that is a valid response, but I think the work that you have done in attempting to estimate it would be of great value to the committee because I think it does point up the fact that over the next decade, what they are beginning to do now is going to have enormous impact in the Midwest, in the South, and in California. I think that what is happening is that, as they gave no notice in this instance of the enlargement, so that there could be no negotiation, it is also their intent to incrementally do us damage without attracting great attention to it.

They apparently have heard about the frog that you place in the water and gradually turn up the heat. That, I think, is what is happening to us, and I really think we need to get that early response from the Department.

Secretary LYNG. We will submit it for the record.

[The following information was subsequently received by the committee:]

DISPLACEMENT OF U.S. HORTICULTURAL EXPORTS RESULTING FROM EC ENLARGEMENT

Question. What will be the displacement effect on like, or directly competitive U.S. agricultural products by those commodities grown and processed in Spain and Portugal, which are now traded duty-free into the EC, but were not traded duty-free prior to their accession?

Answer. The elimination of duties on Spanish and Portuguese products will weaken the U.S. competitive position in the EC market. Horticultural products are most affected. The EC-10 is a net importer of fruits, vegetables, and nuts while Spain and Portugal are net exporters. (Conversely, the EC-10 has surpluses of grains, milk and meat products, potatoes, and sugar, while Spain and Portugal are net importers.)

Of immediate concern to U.S. exporters are Spanish and Portuguese products which are already competitors in the EC market. The attached table provides data on EC imports of horticultural products where the United States, Spain and/or Portugal are suppliers. It should be noted that the common customs rate did not always

apply to Spain and Portugal prior to enlargement. In many cases, Spanish exports benefitted from duty preferences prior to enlargement. Preferential duty rates have been noted on the table.

In terms of export earnings, the product most affected by enlargement is almonds. The common external tariff on almonds is 7 percent. Spain is the principal competitor for U.S. almonds in the EC market. Portugal is also an important exporter. The United States has made unsuccessful attempts to negotiate a reduction in the almond tariff during the MTN's in 1978, and more recently in bilateral discussions. U.S. almond exports to the EC, including processed almonds, were valued at $186 million during 1985.

Other horticultural products adversely affected are citrus (other than grapefruit), fresh deciduous fruit, and fresh vegetables. EC imports of these items totaled over $192 million during 1984.

The elimination of duties will be gradual. In Spain, the tariffs for products, such as almonds, that are not subject to a reference price system will be dismantled by 10 percent a year for 10 years. The tariffs on products subject to reference prices (including apples, apricots, grapes, lemons, orange hybrids, sweet oranges, peaches, pears, cherries, plums, cucumbers, tomatoes, eggplant, zucchini, lettuce, endive, and artichokes) will be dismantled more quickly in the fifth and sixth years of the transition. For Portugal, tariffs will be dismantled over 8 years.

A second effect of the enlargement is the renegotiation of the EC's Mediterranean preference agreements. These are not yet finalized, but it appears that traditional quantities of fresh citrus from the preference recipients will be able to enter the EC duty-free. This will place U.S. citrus, especially oranges and lemons, at a greater disadvantage than at present. Ongoing negotiations with the EC to resolve the citrus-pasta dispute are aimed at lessening the effect of the preference agreements on U.S. exports.

COMPETITIVE IMPORT PRODUCTS IN THE EUROPEAN COMMUNITY FROM THE UNITED STATES, SPAIN, AND PORTUGAL: 1984

Product	NIMEXE	CXT	Preferential trade agreement		EC imports, total and by source (million dollars) 1984 values				
			Spain	Portugal	TTIMPS	IMPUSA	USSHARE (percent)	IMPSP	IMPPOR
Cabbage lettuce, April 1–November 30	0701.31	15			8.267	1.356	16.4	6.361	0.148
Cabbage lettuce, December 1–March 31	0701.33	13			10.81	1.942	18.0	5.14	0.125
Carrots and turnips	0701.54	17			7.511	0.286	3.8	5.252	0
Onions, other than sets	0701.63	12			86.282	1.088	1.3	56.553	0.153
Other Vegetables, fresh or chilled	0701.99	16			29.629	0.438	1.5	8.263	0.004
Other Frozen Vegetables, Not Included Previously	0702.99	18			36.591	0.41	1.1	5.792	0.706
Avocados	0801.60	8	4		82.361	9.21	11.2	5.806	0
Fresh navels, etc. April 1–April 30	0802.03	13			45.617	0	0.0	24.49	0.005
Tangerines	0802.34	20	12		8.969	0.337	3.8	0.46	0
Other citrus hybrids	0802.37	20	12		13.384	0.647	4.8	1.983	0
Sweet almonds	0205.19	7			198.321	142.554	71.9	41.813	9.514
Apples, not cider, August 1–December 31	0306.13	14			24.711	1.539	6.2	7.162	0.124
Fresh plums, July 1–September 30	0807.71	15			10.005	0.182	1.8	8.427	0
Fresh strawberries, August 1–April 30	0808.15	14			38.057	0.97	2.5	27.663	0.123
Other fresh fruit, nuts, melons	0809.90	12			62.296	2.633	4.2	9.419	0
Pimento-crushed/ground	0904.60	12	6		14.347	1.658	11.6	6.054	0
Orange juice, val >30 ECU/100KG	2007.44	19			449.595	18.285	4.1	5.973	0.012
Asparagus, prep or pres	2002.40	22			130.691	0.99	0.8	14.561	0
Grapefruit juice	2007.45	15			51.015	4.818	9.4	0.135	0
Lemon juice w/added sugar	2007.46	18			15.823	1.976	12.5	0.238	0
Lemon and other citrus juices without sugar	2007.50	19			24.533	1.253	5.1	0.542	0
Total imports					1,348.815	192.572	14.3	242.087	10.914

Senator WILSON. Your testimony also mentions the nearly 1-year-old citrus/pasta war. In your view, what are the prospects for resolution of that, or is the EC simply going to continue this stonewalling? Has this now been superseded by the accession issue?

Secretary LYNG. No, and negotiations were held in Brussels on that issue within that past month. Unfortunately, no reconciliation took place. I do think there are some additional meetings scheduled on that.

Ambassador Yeutter discussed that with me and with the Commissioners from the European Community in our meeting and pointed out that it is essential that we get something resolved on this issue. Otherwise, we are going to have to take some further action, particularly by the European Community's actions on walnuts and lemons, which has severely damaged the trade from our home State of California. We simply cannot continue to tolerate that situation without some other kind of action taken by the United States.

Senator WILSON. Well, I knew without asking because I have been in your hometown and in your business as your guest, when we were both in California agriculture, and you did not need the lecture from anybody.

The fact is, that is a $36 million export crop, and we are fast approaching another marketing season this fall.

It seems to me that what the European Community is doing in this counterretaliation is very similar—it is a somewhat different device—but it is, in its effect in third countries, not dissimilar to the kind of dumping that the Japanese are practicing against the semiconductor industry in this country. The effect is, in fact, to kill markets and ultimately drive producers out of business.

Now, I think if we tolerate that, we are absolute damn fools, and I would say that it seems to me that if we are going to have an Export Enhancement Program, then as much as philosophically I resist that, I have been a leader in advancing it in recognition that while ideologically free trade may be a desirable thing, it does not exist yet, and we need to secure compliance before we are going to come close to achieving it.

In the same vein, it may be that we need to think about using some export enhancement moneys as some kind of an offset to specific industries or specific commodities that have been targeted by foreign competitors, and, as Senator Zorinsky, and others have pointed out, in his defense of the Nebraska corn. We do not shrink from competition or from a fair fight, but what we are dealing with here is not a fight between private sector and private sector. It is between the American private producer and foreign governments.

I commend you and Ambassador Yeutter. I hope that the administration as a whole has the same sense of urgency. If any of them owned any walnuts, they might. But the fact of the matter is, we really do, I think, have to focus—and I voted against the Nunn amendment a couple of years ago. The Nunn amendment, for those who do not spend their time in the arcane details of the Armed Services Committee, was the resolution that threatened a substantial withdrawal of American forces from NATO on the condition that NATO not improve its contribution.

So, it really was not focused at all on the questions that are the subject of our attention this morning. It was not concerned with agriculture or trade at all. It was concerned with simply the disparity in their contribution and in the American contribution to the defense of Europe.

But I think some of the comments that have been made this morning that I would have somewhat impatiently dismissed 2 years ago are beginning to make more sense, because it is not that we should turn our backs on our commitment to the defense of Europe. It is a shared commitment because it is a shared benefit.

On the other hand, we are paying so much more for that and at the same time, being treated—shabbily understates it—outrageously—by the EC, that I think the time has come when we need to really take the gloves off.

I say that because I do not think this is sabre rattling on the part of this committee; I think we are justifiably at the end of our patience. We are delighted that you and Ambasador Yeutter are carrying the flag. I want you to know that there is an intensity of feeling on this committee that I think is entirely justified.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Well, I thank you, Senator Wilson, and I share those thoughts. By providing a defense umbrella not only over the Europeans, but the Japanese, we give them the ability to compete with us, to in effect subsidize our principal economic competitors.

Senator Melcher.

Senator MELCHER. Thank you, Mr. Chairman.

I want to follow up, first of all, Mr. Secretary, on the statement on hormones and the Community. You pointed out that they would not enforce that until January 1, 1988.

What hormones are we using on meat products? I well recall the use of diethylstilbestrol in beef cattle during the fifties and sixties. But sometime in the sixties we banned its use. I am not familiar with what hormones are used in red meat production in the United States.

Secretary LYNG. There are some that were in existence at the time of the diethylstilbestrol. I cannot remember the names of those, but I believe that International Minerals and Chemicals Corp. has been offering a hormone that is in fairly widespread use.

I am not sure the word "hormone" precisely describes it. As a matter of fact, there are all kinds of new terms to describe research being done at universities. Monsanto is testing a synthetic hormone which is really a natural protein, as I understand it, that is being developed through biogenetic technology and tested at Cornell for dairy animals. There are a number of these on the horizon.

I think part of the concerns that have been rasied by some is that in tests they have shown tremendous increases in productivity; in the case of dairy animals, as much as a 40-percent increase in the flow of milk during a single lactation period. And of course, some of the opposition to that stems from the potential political and social and economic problems that may result from the increased production per cow at a time when the Europeans and ourselves both have heavy surpluses.

Senator MELCHER. Well, nevertheless, on hormones on red meat animals, while you could see some additional weight gains and rapid weight gains by the use of diethylstilbestrol when we did use it on meat animals, I do not think any consumer really felt too bad when it was dropped and banned in this country. After all, we can get those hormones for ourselves without eating them, unknowingly in meat products.

I would like to pursue that, and of course, we do have some time since that imposition by the European Community would not be imposed until January 1, 1988. So, we have some time to review that.

Second, on the Cooperators' Program where the Department of Agriculture assists along with the U.S. Wheat Association and U.S. Grain Association, and similar organizations in promoting exports, that budget figure was reduced from $36 million to $23 million. In that program, they put up part of their own money, paid for by producers here in this country, and have their own people around the world, promoting sales of agricultural products.

This budget was not yours, of course, in any respect, but now as Secretary, you have to comply with it. But that reduction seems to fly in the face of an effort to expand U.S. agricultural exports.

It is highly inconsistent. Can you correct it?

Secretary LYNG. It would be inconsistent, Senator, if one assumed that by spending more money it would improve exports. I think the effort was made here to make what is a relatively modest cut in the total budget of the USDA, but a large cut in terms of the U.S. Government participation in these private programs.

The cooperators, of course, have objected very strongly to this in hearings of the Agriculture Appropriations Subcommittees in both Houses of the Congress.

The problem is one where an effort was made to fit a very large foot into a small shoe, and wherever you cut a budget, you find people arguing that that cut should not be made.

You are right, this was taken before I arrived, but it is the President's budget, and I support it.

Senator MELCHER. Well, it happens to be the President's budget, at a time when our trade deficit is $150 billion, and our agricultural export advantage, I understand from the Department's figures, is going to dwindle to $7 billion; that is, we will be exporting only $7 billion more in agricultural products than we import in agricultural products.

So, it seems to me that it is the wrong cut at the wrong time, in the wrong place. I am advised that the cut is from $36 million down to $23 million. That means that it is 10 times the Gramm-Rudman 4-percent cut, because that is nearly a 40-percent cut, not a slight reduction.

Secretary LYNG. Senator, this is in the 1987 budget proposal of the administration, which would take effect on October 1.

Senator MELCHER. Correct.

Secretary LYNG. The 4.3-percent cut was the result of the sequester in the Gramm-Rudman legislation which went into effect on March 1 and affected the 1986 budget.

As you know, the Congress has not adopted an appropriations bill, and the matters that you are discussing, as I said, have come

up for rather heated discussion in the Appropriation Committees in both Houses.

Senator MELCHER. The point is, though, that this is a trade matter. In my judgment, the Congress should only write trade policy through legislation when the executive branch refuses to do so. Although this is only a small item in the overall budget, a reduction of $13 million, it is a high percentage item in the reduction. If we are going to continually crowd the Congress to do something about forming a trade policy for the United States, this is just one example. I believe that trade policy should be enunciated by the President.

I recognize that the executive branch of Government sometimes has more difficulties than the legislative branch since you have to make the final decision and make it in a timely manner. But if we are going to have a cooperative effort between Congress and the administration to formulate a trade policy for this country that can be successful, we have to start with the budget matters.

Sure, we will probably increase this, but we are going to have to take it out of something else, because the Department—not you, Mr. Secretary, because you were not there at the time—but the Department absorbed the loss here in this area to make up for retaining and protecting some of the Department's functions in other areas.

I think we have to put trade on a priority basis, or we are not going to get anywhere.

I do not think you espoused the idea of free trade, but a lot of other people do even though there is not any free trade that we can find. How long are we supposed to sit back and listen to this talk about the GATT procedure somehow correcting what is wrong?

You have used the term "GATT-illegal" in describing some of the actions of the European Community. I listened to the news this morning that quoted Speakes, the President's press secretary, that the summit meeting in Tokyo gave us some outstanding victories. He mentioned a terrorism agreement, which I hope is as good as he makes it sound, and I suspect that there is some real substance on that matter.

But then when Speakes follows up that story by stating that somehow Jim Baker obtained a coup on agricultural trade because there is going to be a GATT discussion in September, that just leaves me cold.

Isn't it true that in order to correct the illegal GATT procedures you talk about, in order to get some redress, it just evolves into a series of discussions where nothing happens anyway?

Secretary LYNG. Well, I hope that is wrong. I think we have always agreed in the United States that there was something desirable to having some rules of trade, and one of our problems has been that they have been very vaguely defined as far as agriculture is concerned.

The issue of subsidization on agricultural trade has been much less clear than subsidization on nonagricultural trade.

The current situation in agricultural trade is one of worldwide chaos, in terms of subsidization. As Senator Zorinsky pointed out, U.S. farmers can do very well, can compete with farmers anywhere

in the world. But if they are competing with the treasuries of other governments, it becomes much more difficult, if not impossible.

So, we are hoping that through this fourth round of multilateral negotiations that agriculture will take a much greater role. There will be a meeting of the ministers of the GATT in Uruguay in mid-September, at which a decision will be made whether to go ahead with this round of negotiations.

I think that the expression most commonly used to describe the GATT is it is "the only game in town." And if we do not have success, there will be no international trading rules in agriculture. This will be bad for the United States, bad for Europe, and it will be particularly bad for the developing countries of the world.

I only call your attention to the European Community sugar policy, while not affecting us directly it forced us to put import restrictions on sugar. However, it was devastating to the equatorial Third World countries where they depended so heavily on sugar. The world needs the stability that would come from a good general agreement on tariffs and trade.

Senator MELCHER. When GATT was being sold to the Senate by President Carter's negotiator, Bob Strauss, we started out with some real serious objections to the treaty; but one by one, they were knocked down.

Cars were going from the United States into the Community, where they faced a tariff of 10 percent, and cars coming from Europe were going into the United States with a tariff between 2 and 3 percent.

When the dust all settled, the decided advantage of European car manufacturers was not changed very much. In wheat the Community charges whatever they have set as their price of domestic support of wheat, and then taking ours at whatever price, and add within the Community that difference. There is a differential, roughly speaking, of about 40 percent.

Our wheat going into Antwerp is laid in there at about $3.50. But nevertheless it is going to cost any consumer in the Community over $6 a bushel. That type of disparity was not rearranged before the treaty was adopted. The bill that went with it in the Senate had only four of us voting against it.

So GATT set the stage for the $150 billion trade deficit we have now. I am not reassured at all about another round of discussions with GATT. What I want is some action to correct the imbalance.

We are slipping from a plus of about $30 billion a year in agricultural exports over that amount that we import in this country to $7 billion. That says to me that we are on the losing side. GATT is a part of it.

What is wrong with reciprocal agreements with Third World countries where we just start giving them or selling them what they need and see what we can do to buy back from them?

Secretary LYNG. Well, there is nothing wrong with that in principle, but if these countries do not have something that they can produce and sell and generate some favorable balance with some money credits, they do not have anything to pay for them.

Senator MELCHER. You mentioned sugar. I take it the Department of Agriculture would not be adverse to seeing the Philippine

sugar quota increase so that they could do just exactly what you are talking about?

Secretary LYNG. We would not want to obviously increase the Philippine quota if it meant taking it away from the Dominican Republic or some other country.

Senator MELCHER. Why the Dominican Republic?

Secretary LYNG. Or any other country.

Senator MELCHER. How about Canada?

Secretary LYNG. We do not import sugar from Canada.

Senator MELCHER. They have a quota, and they have been sending it down here. So we have been importing it.

Secretary LYNG. It is rather small.

Senator MELCHER. Well, how about taking it away, whatever it is?

Secretary LYNG. I do not see how we can negotiate that way with countries. The quotas are established by using a base period, and whatever countries sold into the United States during that base period have maintained the quotas.

Senator MELCHER. Canada is a net importer of sugar.

Secretary LYNG. That is correct.

Senator MELCHER. So why give them a quota? Why allow this subterfuge?

Secretary LYNG. Well, whenever you get into discussions like this, you try to have some rationale. I am not the expert in the Department on sugar quotas, but I was using sugar as an example of the kind of dumping policy of the European Community, and the damage it has done.

Senator MELCHER. Well, not any more than this, I guess, since you are not on the right track, Mr. Secretary.

Senator BOSCHWITZ. What is the Canadian quota, Mr. Secretary?

Secretary LYNG. I do not know, offhand.

Senator BOSCHWITZ. It is about 1,000 metric tons.

Secretary LYNG. It is not very large.

Senator MELCHER. It is more than that.

Senator BOSCHWITZ. It is about 1 one-hundredth——

Senator MELCHER. It is about 1 percent of the sugar that we import into this country.

Senator BOSCHWITZ. One one-hundred-and-seventieth of 1 percent, I quickly calculate.

Senator MELCHER. No, no. It is much higher than that. It is over 1 percent of what we import.

Senator BOSCHWITZ. Over 1 percent. That would be 17,000 tons.

Senator MELCHER. Well, I am not going to delay this to pursue figures right now. The point is, Mr. Secretary, we have a $150 billion trade deficit. Agriculture plays a role in that. We are losing our agricultural exports. You mentioned a 30-percent drop, I think, since 1980 or 1981. That means we truly have to be hardnosed.

The question of Canada transshipping us some sugar is about the easiest thing I can think of to say "No more." Transshipment is a very mysterious process that has no bearing on a realistic trade policy for our country. I do not think we have to worry about this fiction of Canada needing a portion of the American sugar quota.

Has anything been done to reduce the milk surplus by selling it in the last 6 months?

Secretary LYNG. I am sorry, Senator?

Senator MELCHER. The milk surplus, the dairy surplus. There has not been anything done in the last 6 months to reduce it, has there?

Secretary LYNG. Yes. We have embarked upon a whole-herd buyout program.

Senator MELCHER. I do not mean that. I mean selling it abroad.

Secretary LYNG. We have been making some sales. I cannot give you the exact details at the moment. But we have been continuing to make sales of nonfat dry milk and butter. I would be glad to submit data on that for the record.

Senator MELCHER. The figures that I looked at provided by the Department seem to indicate that there is no net reduction in the surplus, that it continues down.

Secretary LYNG. That is true, because the production has been going up each month over the comparable month a year previous. That will begin to change now as we move into the whole-herd buyout program, but we will still continue to have some surpluses.

Senator MELCHER. I think the whole-herd buyout program will work like the wheat program or the corn program. I think that the whole-herd buyout program is another one of the combined tragic blunders of decisions made by Congress and the administration, and I think it is a lousy program. It moves exactly in the wrong direction and sets one commodity group in the United States against another.

If it works like the wheat and corn programs do, we will find out that the dairy farmers that are left are going to produce as much milk product as they were before, anyway, and will, in fact, increase it.

I really think our only answer to the dairy program problems is a very determined effort to sell some of our dairy products abroad. The same goes for wheat. Our wheat surplus is mounting and the sales are down.

Senator BOSCHWITZ. Senator, if I may interrupt you for a moment.

Senator MELCHER. Yes.

Senator BOSCHWITZ. First, I am informed you are quite right about the sugar, that it exceeds slightly by 1 percent.

I have another commitment at noon, and we have six witnesses to go. Are you going to be here for the entire hearing?

Senator MELCHER. No. We can forgo this and I will be done.

Senator BOSCHWITZ. Fine.

Senator MELCHER. The DCC is still alive and in action and has still not been revamped or changed in any way to clear up the problems that that committee opposes—principally to slow down export sales—except that we have got Assistant Secretary Daniel Amstutz chairing it.

Is that the only change?

Secretary LYNG. I am not familiar with how that committee is organized.

Senator MELCHER. I hope you get familiar with it, because it has been one of the major blocks for making sales. I hope that is corrected by the President entering into this directly through his agricultural trade and food assistant adviser when he is appointed—

and I trust he will be appointed soon. Is there any indication that the Soviet Union would like to buy milk from the United States, or other dairy products, for themselves or Poland or any other country that has been damaged?

Secretary LYNG. No; we have had no communications from any of the Eastern bloc countries on that issue.

Senator MELCHER. And we need not expect any until milk supplies have been exhausted in the Community, I am sure, and perhaps other countries, too.

Well, thank you, Mr. Secretary. I think you have a hard job.

Secretary LYNG. Thank you.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. I agree.

Thank you, Mr. Secretary.

Now, we will have three witnesses as a panel: Harold Cutler, first vice president, National Corn Growers Association, representing the Trade Policy Coordinating Committee, consisting of the National Corn Growers, the Grain and Sorghum Producers, the Barley Association, and the U.S. Feed Grains Council, so he is representing them all; George Fluegel, president of the American Soybean Association, and also, Bud Leuthold, president of the National Association of Wheat Growers.

While these gentlemen are sitting down, we will just take about a 30-second stretch here.

[Pause.]

Senator BOSCHWITZ. We are going to proceed in this order: Mr. Cutler, Mr. Fluegel, and then Mr. Leuthold. Often in these hearings, there is a repetition from one to the other, so if there is a repetition, we ask you to summarize that repetition; but if you need to, read your whole statement.

STATEMENT OF HAROLD CUTLER, FIRST VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, REPRESENTING THE TRADE POLICY COORDINATING COMMITTEE

Mr. CUTLER. Senator Boschwitz, and distinguished members of the Senate Agriculture Committee, I am Harold Cutler, a corn grower from North Carolina and the first vice president of the National Corn Growers Association. It is indeed an honor to testify here today on behalf of the National Corn Growers Association, the National Grain Sorghum Producers Association——

Senator BOSCHWITZ. I already said all that.

Mr. CUTLER. In the interest of time, I am going to dispense with the reading of my testimony and hit four points that I think are important to us.[1]

Senator BOSCHWITZ. Good.

Mr. CUTLER. They include the damage to exports. Spain and Portugal are our third-largest market in exports. They take about 5 to 6 million tons, and that equates to 236 million bushels. This is a loss of $900 million to our export market.

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[1]See p. 56 for the prepared statement of Mr. Cutler.

The next point that I would like to raise is the GATT-illegal action. The Portugal reservation to purchase 15 percent from the EC-10 and 5 percent from Spain is illegal under the GATT action.

The unbinding tariff in Spain is another illegal action, unless they pay the compensation. That goes from a voluntary percentage of 20 percent to 100 percent under the EC variable levy through 1990.

The other point that I would like to make is compensation. Any compensation that is made through negotiations should go to injured parties.

I would like to point out here that the tailgate price for U.S. corn is $90 per ton. Under the ECC tariff, they add $151 to that price, which totals approximately $240. Their price in Spain and Portugal is going to be subsidized to the tune of $196. This makes it almost impossible for us to enter that market at this particular time.

Also, it equates to a subsidy of $106 per ton.

As we move into negotiations, the points that we feel are important to us are to keep the market to Spain and Portugal open, and the primary goal to reform the cap on the export subsidy. This is to make the EC market more competitive and also to stop any subsidies on the world market.

That concludes the points that we would like to get across this time.

There is one other thing that I would like to submit with our testimony. Recently, Rob Johnson of Cargill had an article that was based on "Enlargement of EC Threatens Showdown With U.S. on Agricultural Trade Dispute." I would like to submit that with my testimony,[1] and that concludes my testimony.

Senator BOSCHWITZ. You gave us a lot of figures this morning and maybe you or somebody on the staff might put those into a short memo so that we could use them in response to, I am sure, assertions that will be made here in this room tomorrow morning by Sir Roy Denham.

We would invite you and your representatives, or representatives of any of those who are testifying this morning, to be here tomorrow in our conversations with Sir Roy Denham and to submit what material you wish so that I could review it in advance.

[The following information was subsequently received from Mr. Cutler:]

NATIONAL CORN GROWERS ASSOCIATION,
Washington, DC, May 6, 1986.

Hon. RUDY BOSCHWITZ,
U.S. Senate,
Washington, DC.

DEAR SENATOR BOSCHWITZ: I appreciate having the opportunity of testifying before the Senate Committee on Agriculture today, and commend you on your chairmanship of the Committee's activity with respect to the impact on U.S. Agricultural exports and the enlargement of the European Economic Community.

With respect to your request for additional information on various grain price structures of the United States and the European Economic Community, the below tabulation of those prices as of the end of April 1986 should serve you well in your committee discussions tomorrow with Sir Roy Denman of the EEC Commission here in Washington, D.C.:

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[1] See p. 58 for a reprint of the article referred to by Mr. Cutler.

	Wheat dollars per—		Corn dollars per—	
	Bushel	Metric ton	Bushel	Metric ton
U.S. farm gate prices	3.18	116.83	2.28	89.76
EC import levies	4.57	167.85	3.85	151.40
EC intervention prices	5.69	209.20	4.99	196.70
EC export subsidies	2.68	98.50	2.39	94.00

If we is the National Corn Growers Association can be of any further assistance to you or your staff in this regard, please do not hesitate to contact us.

With best regards,

HAROLD CUTLER,
First Vice President.

Senator BOSCHWITZ. Mr. Fluegel.

STATEMENT OF GEORGE FLUEGEL, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. FLUEGEL. Yes, Senator. I have abbreviated the copy you have there. The copy I have will take about 8 minutes, and there are some points in it I would like to emphasize.

Senator BOSCHWITZ. Fine.

Mr. FLUEGEL. My name is George Fluegel. I am a soybean farmer and a corn farmer from LeRoy, IL. I appear here today in my capacity as president of the association.

Senator BOSCHWITZ. Where is LeRoy?

Mr. FLUEGEL. LeRoy is between Bloomington and Champaign-Urbana in LaPlain County, the central part of the State of Illinois.

Before I discuss the proposed EEC restriction on soybean and soybean products in Portugal, let me first indicate the stake that American soybean farmers have in Portugal and the 12-nation European Community.

In calendar year 1985, Portugal imported approximately 900,000 metric tons of soybeans from the world, an increase of 88.7 percent from the 477,000 metric tons imported in 1982. By processing the soybeans internally, the Portuguese produced in 1985 approximately 712,000 metric tons of soybean meal and 155,000 tons of soy oil.

Of the soy meal, approximately 67 percent was consumed domestically; 33 percent was exported to Third World countries. Approximately 64 percent of the soy oil was exported, and 35 percent was consumed domestically.

The most recent information indicates soybean oil consumption in Portugal during the first months of 1986 totaled about 25,000 metric tons. U.S. exports of soybeans to Portugal in 1984-85 market year were 552,000 metric tons, with an approximate value of $127 million.

Thus far in the current marketing year, we have sold 489,000 metric tons of soybeans to Portugal. As you realize, soy oil is not the vegetable oil traditionally consumed in Portugal. Instead, olive oil is the traditional vegetable oil of the country. However, it is quite expensive, currently costing about $2.48 per liter.

Sunflower oil sells at about $1.21 per liter, and soy oil is currently selling for about 86 cents per liter.

In March, the European Community announced it would apply restrictions on importation and consumption of soybeans and soy-

bean products in Portugal. While it is still very unclear just exactly what restrictions will be implemented, our indication is as follows.

First, for calendar year 1986, there will be a quota on the internal consumption of soy oil for food use in Portugal of 50,000 metric tons. Any soy oil produced domestically from processing soybeans or imported from outside the country in excess of the consumption quota level will have to be exported.

Supposedly, the 50,000 metric ton soy oil consumption quota will be increased in future years so as to be nonrestrictive to internal demand.

For calendar year 1986, there is a quota on soybean meal imports at 110,000 metric tons. EC regulations indicate the quota will be increased by 15 percent per year in the future and eliminated no later than the end of 1992.

Evidently, there are plans to implement some procedure to raise the price of soy oil within Portugal to no less than the price of olive oil divided by 2.3. While no procedure has been implemented, we anticipate the internal soy oil price will be increased either by fixing an administrative minimum price or by taxing soybean imports. Based on current prices in Portugal, the requirement would force a 26-percent increase in soy oil prices.

Fourth and most disturbing to ASA is the fact that the EC-Portuguese accession agreement leaves open the import duties which will be charged on soybeans and products once Portugal fully accedes to the EC.

By that, I mean, the applicable import duty rates for soybeans and products are left blank in the Portuguese tariff schedule. We can only believe that this means the EC–12 intends to change its soybean product import regime in the future. Otherwise, the Portuguese tariff schedules would have been filled in at the current EC duty rates.

We cannot put much trust in the EC promises that quotas will be increased in the future so as to be nonrestrictive. If the EC actually intends to have a nonrestrictive regime for soybeans, why have the restrictions in the first place?

ASA also views the Portuguese restrictions to be totally counter to the general agreement on tariffs and trade and inconsistent with either Portugal's past oilseed import regime or the European Community's current regime.

No soy oil consumption quota existed in Portugal in the past, and none existed in the EC–10. There was no internal tax on soy oil in Portugal in the past, and none existed in the EC–10.

While Portuguese oilseed and oilseed product imports were controlled by a State buying agency in the past, the buying agency's role was eliminated in October of 1984. Thus, what we see in Portugal cannot be viewed as a transitional program. Instead, it is a regime which is clearly intended to reduce imports and consumption of soybean products in Portugal, and we believe amounts to the camel's nose under the tent in the EC's overall plan to undermine its 1962 zero binding duty on soybeans and soybean products.

ASA believes that the United States has no alternative but to fight the Portuguese restrictions as strongly as possible. ASA totally supports the administration's proposal to impose a mirror quota

on U.S. imports of European white wine in response to the Portuguese restrictions.

Our objective is to maintain our access not only to the Portuguese market, but also to all of the other nations of the EC. We certainly do not want a trade war with the European Community because the costs to American and European farmers, consumers, exporters and importers will be great.

We are not the ones who "fired the first shot," however. That must be blamed on the EC. However, now that the EC has infringed upon our access to its market, it must be certain the United States will return the fire. Neither side will win in a trade war. We both will lose; we know that. But we must not be the only loser.

To this point, I have discussed only the proposed Portuguese restrictions since they are the subject of the current U.S.-EC dispute. However, I would like to point out just one or two facts on Spain.

Spain has since 1975 had a 90,000 metric ton internal consumption quota on soy oil, which we want removed also. Spain is the market for almost 1.5 million metric tons of United States soybeans. The soy oil produced from these soybeans is over 250,000 metric tons. However, only 90,000 metric tons or less has been allowed to be consumed in Spain, even though the demand is much greater.

Finally, Mr. Chairman, I would like to thank and commend the administration for its prompt and forceful handling of the current dispute with the EC. Ambassador Yeutter and Secretary Lyng, who have been open and responsive to our concerns, have moved quickly to protect our interests.

We are heartened by the apparent unanimity of the administration on this issue and hope it continues. We also want to thank you and the Congress and this committee for your support in the interests of soybean farmers.

I thank you.

[The following tables were inserted by George Fluegel, president, American Soybean Association, in support of his oral testimony:]

U.S. EXPORTS OF SOYBEANS
TO
EUROPEAN COMMUNITY (MT)

COUNTRY	Marketing Year 1983-1984	1984-1985	1985-1986*
Denmark	113,040	71,659	56,400
United Kingdom	323,958	360,113	240,700
Netherlands	2,931,257	2,896,203	2,461,000
Belgium/Luxem	855,151	657,946	799,700
France	461,040	310,948	385,300
West Germany	918,749	669,557	1,222,100
Italy	525,417	525,417	744,700
Greece	144,240	206,226	163,600
Spain	1,112,627	1,095,970	1,480,500
Portugal	447,339	552,800	511,100
EC-10	6,272,852	5,786,102	8,095,300
EC-12	7,862,818	7,434,872	10,086,900

*Current Marketing Year (September 1 - August 31) to date

Source: Foreign Agriucltural Trade of the U.S.
U.S. Export Sales Report

U.S. EXPORTS OF SOYBEAN MEAL
TO
EUROPEAN COMMUNITY (MT)

Country	Marketing Year 1983-1984	1985-1985	1985-1986*
Denmark	0	0	9,900
United Kingdom	2,549	56,228	49,700
Ireland	4,567	16,239	2,500
Netherlands	693,140	904,969	1,003,600
Belgium/Luxem	7,403	0	0
France	0	0	15,000
W. Germany	1,154,151	195,898	459,500
Italy	493,013	502,543	428,500
Greece	2,613	13,283	0
Spain	49,079	0	71,300
Portugal	0	0	13,000
EC-10	2,357,436	1,689,160	1,996,200
EC-12	2,406,515	1,689,160	2,080,500

*Current Marketing Year to Date

Source: Foreign Agricultural Trade of the U.S.
U.S. Export Sales Report

Senator BOSCHWITZ. Thank you very much, Mr. Fluegel.
Bud.

STATEMENT OF JOHN "BUD" LEUTHOLD, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS ALSO REPRESENTING U.S. WHEAT ASSOCIATES

Mr. LEUTHOLD. Thank you, Senator. I can summarize very quickly.[1]

I am Bud Leuthold, president of the National Association of Wheat Growers, from Billings, MT.

The recent enlargement of the European Community continues to increase trade tensions between the United States and the Community. We supply virtually 100 percent of the 600,000 ton wheat import demand by Portugal. They are now going to be required to buy 15.5 percent from the EEC member states. We see basically the market disappearing completely due to the way the EEC operates.

In the case of Spain, because of the EEC higher rates for wheat, they are going to have a great incentive to increase their production. That happened to the United Kingdom when they came into the EEC. In 3 years, they became a net exporter, and they were an importer. We see the same thing happening in Spain.

We applaud the strong U.S. reaction to the GATT-illegal quotas, but agriculture trade negotiations with the Europeans typically consume many months and years before any resolution, and we see very little resolution, probably. The wheat industry will in no way receive any compensation for the loss of the Portuguese wheat market, even if negotiations are successful.

We would urge that export programs be used to boost more U.S. sales. We encourage the Government to try to improve the GATT as a more effective recourse for trade disputes, but in the meantime, export subsidies applied by the Community are set at about $90 per ton, or two-thirds the value of soft wheat in the world market.

There is an old saying, Senator, that "Nothing happens until somebody sells something." At the end of this year's harvest, we will have accumulated a unit train of wheat over 1,400 miles long. The American wheat farmer certainly understands that in order to stay in business at our present level, somebody has to sell some wheat.

Thank you for this opportunity.

Senator BOSCHWITZ. I did not notice from your testimony—do we sell much wheat to Spain? I see we do to Portugal.

Mr. LEUTHOLD. We sell some. I do not have the figure with me at this time, but I could get that for you if you like.

Senator BOSCHWITZ. The Secretary also mentioned that the higher binding and the higher internal prices may well, as you point out, cause the same result that occurred in Great Britain. My assistant was in Great Britain on a wheat farm of 1,500 acres 2 or 3 years ago, and it had a yield of 195 bushels per acre. That is a real wheat yield; that is a pretty good corn yield, as a matter of fact.

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[1] See p. 62 for the prepared statement of Mr. Leuthold.

That comes about because of those very high internal prices that even cause some of it—it is hard to hold it up so it will not fall over. They have to strengthen the stalks.

I will reread your testimony, particularly the soybean testimony and also the wheat testimony before tomorrow, so that I have more ammunition when we talk to Sir Roy Denham.

Senator Melcher, do you have any questions?

Senator MELCHER. Mr. Fluegel, I want to compliment the American Soybean Association on expanding exports. It seems to me, from what you have just shown us here on the European Community both in soybeans themselves and in the soybean meal, that it is a significant export product.

However, you are in the position, are you not, of virtually clearing every year?

Mr. FLUEGEL. Clearing every year?

Senator MELCHER. Yes; there is not a great deal of soybeans carried over from 1 year to the next, is there?

Mr. FLUEGEL. It has not been a problem in the past. I think if you will check into what the soybean surplus will be this coming year, you will find that we are starting to build a surplus.

Senator MELCHER. Does it look like 200 million bushels?

Mr. FLUEGEL. It would be in excess of that. I think we are talking somewhere in the neighborhood of 400 million bushels being in CCC stocks by the end of next year.

Senator MELCHER. 400?

Mr. FLUEGEL. 400.

Senator MELCHER. Would that be about 20 percent of the crop?

Mr. FLUEGEL. Somewhere in that neighborhood.

Senator MELCHER. What you are testifying on is retaining the present market, and I agree with your testimony. Your producers are also corn producers—are they not?

Mr. FLUEGEL. It varies greatly. In the South, we have all soybean farmers, we have soybean and cotton farmers; the North is basically corn, and the West, soybeans and wheat. So we run the gamut.

Senator MELCHER. We are going to carry over about 75 percent of 1 year's crop in wheat, and that means to us that probably after we get the 1988 or 1987 crop in, we will have in surplus 1 full year's crop, which is pretty price-depressing.

You are commending the administration for the firm stand they are taking. I expect that will be less than a noteworthy victory to retain all of the exports that you have had to Spain and Portugal in the past 3 years.

I was just going to suggest that you get more aggressive. It is going to get worse unless we change it. It is going to get a lot worse.

Mr. FLUEGEL. I agree, Senator.

Senator MELCHER. All of us have a special interest in soybeans. Aren't they still one of the great soil-rebuilding crops that we put in rotation?

Mr. FLUEGEL. Yes, and they are also very high in protein, which the world needs.

May I ask that the Senator also be very aggressive and help us in our needs.

Senator MELCHER. I think we are all going to have to be saying about the same thing—demanding that the administration turn around their agricultural trade policy. It is not going to come to just jawboning about GATT. We must go out and find another market if this one does not work, and replace it. That takes a lot of doing.

For instance, do you have a comparable group out around the world trying to sell these products like grain people have?

Mr. FLUEGEL. Do you mean competition?

Senator MELCHER. Yes.

Mr. FLUEGEL. Well, we have tremendous competition from palm oil and——

Senator MELCHER. No, no. I mean finance some people out around the world that are trying to sell this, like U.S. Wheat does.

Mr. FLUEGEL. Oh, yes. We have 11 foreign offices overseas.

Senator MELCHER. You do?

Mr. FLUEGEL. We are in cooperation with FAS; we have 11 foreign offices.

Senator MELCHER. That is the first little fight, then. I should not be the one telling the Secretary that it is idiotic to be taking that little chink out of there, that $13 million out, which may mean that you would have to fire somebody in your 11 foreign offices—the same with U.S. Wheat and the same with U.S. Feed Grains Council.

I think we have to be extremely aggressive. You are going to lose some market, probably, but there is a lot of market out there to get. We have to establish a policy. That is among our highest priorities.

I do not have anything to say to you, Bud. I am always asking you for ideas.

Thank you very much, all three of you, for being here.

Senator BOSCHWITZ. I thank you, too.

I would tell my good friend from Montana that I have found the American Soybean Association very aggressive in its overseas market, as illustrated by the success that it has had. They do it under one group, the American Soybean Association. They do not break up their group as I think the other two associations do.

Well, I thank you, gentlemen.

Mr. FLUEGEL. Thank you, Senator.

Mr. CUTLER. Thank you.

Senator BOSCHWITZ. We will now call up the next panel, including Dean Kleckner, president of the American Farm Bureau Federation; Robert Frederick, legislative director of the National Grange, and William Quarles, who is representing not only Sunkist Growers, but also on behalf of the National Council of Farmer Cooperatives.

I think that this is your first time before the committee, Mr. Kleckner, since you were elevated to the presidency of the American Farm Bureau Federation, and we congratulate you and welcome you to the committee.

We ask you also if you could, since normally these hearings become somewhat repetitive after the first, it is always difficult for the later witnesses. I always found the same problem, particularly when I arrived here and I was always sitting at the end of the

table. I would have to question witnesses, and during the process of all my senior colleagues' questioning, I found that I had to redo all my questions and become more creative, because they were all asked by the time it came to the end.

All right, if you would proceed, Mr. Kleckner.

STATEMENT OF DEAN R. KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. KLECKNER. Thank you, Mr. Chairman, and thank you for the congratulations.

Members of the committee, my name is Dean Kleckner, and I am president of American Farm Bureau Federation, the Nation's largest general farm organization, representing about three-fourths of the farmers.

I want to express my appreciation to you for this opportunity.

Mr. Chairman, in recent weeks, we have heard officials from the EC say that the United States should not be surprised by these new trade measures. They are absolutely right. After watching the development of the Community's common agricultural policy over the years, the United States should not be surprised by anything the EC does in its farm trading regime.

I do not want to take the time to review the specific actions taken by the EC that have led to the present conflict. We are all familiar with that.

I would like to very briefly provide some historical perspective on this issue and perhaps help our European colleagues to better understand our sense of frustration with the EC on this and the other agricultural issues.

We watched the creation and subsequently enlargement of the EC with a great deal of concern over the years. Each new development has resulted in damage to U.S. agricultural trade interests. Unfortunately, we have never been particularly successful in either protecting our interests or obtaining compensation for market losses under the GATT provisions.

Part of the problem no doubt stems from a desire on political grounds to avoid placing obstacles in the path of a more united Western Europe. Virtually no one denies that the United States has readily absorbed economic costs as a result of past EC enlargements due to the political considerations.

The other part of our traditional difficulty in coping with trade damage in these situations is not so obvious. It dates back to 1947 when GATT was written. In developing the principle of nondiscrimination in world trade—that is the most-favored-nation or MFN principle—the drafters of the GATT considered that there might need to be an exception to that rule to allow for customs unions. What they had in mind was a customs union of the type that would develop between Belgium, the Netherlands, and Luxembourg, called Benelux. They simply had no idea of a customs union the size and scope of even the original 6 members of the EC, let alone the magnitude of the current 12-member bloc.

In effect, the EC has become an enormous exception to the MFN principle in international trade. Starting in 1986, preferential trade among the current 12 members will represent about 20 percent of

non-Communist world trade. That is not what the GATT founding fathers had in mind.

Furthermore, the GATT provision, article 24, that is supposed to prevent customs unions from adversely affecting third country's exports has simply failed to do so. One section of article 24 calls for a multilateral review of the effect of a new customs union on the overall level of import protection by the member countries. Despite the introduction of significant new restrictions on imports of agricultural products in each of the previous enlargements of the EC, there has never been a serious effort in the multilateral GATT review to establish whether the overall level of protection had gone up or down or stayed the same.

The consultations and trade analyses under this GATT provision have been a sham. But that is only half of the story.

Bilateral negotiations between the United States and the EC on specific enlargement issues have also failed to protect U.S. trade interests after the EC enlargements, especially in agriculture. American farmers paid dearly when the EC was first formed and adopted the CAP for basic commodities.

GATT trading rights that the United States held with the individual countries—the original six, France, Germany, Italy, Belgium, Luxembourg, and the Netherlands—were bottled up and stored away in the form of so-called standstill agreement with the EC.

The result was the relatively open access to several European markets for U.S. grain and other products was replaced by the highly protectionist variable levy system. American farmers again paid in much the same way in 1973 when three additional countries joined the EC—the United Kingdom, Ireland, and Denmark.

Variable levies and other EC import measures were adopted by those countries; U.S. trade rights were again bottled up and stored away, and U.S. agricultural access to those countries was again damaged.

In 1981, Greece joined the EC, and it too adopted the EC import regime. Our access to the Greek market was impaired for one product in particular. U.S. corn exports, which were $174 million in 1980, fell to zero in 1985. Greece was a somewhat different enlargement situation, because the United States did not have GATT rights on corn in Greece prior to their accession to the EC.

I am tempted to say that it was unfortunate that we did not have GATT rights in that case. But the fact is, having those rights in the earlier enlargements never did us much good, anyway. Either they were bottled up in the standstill agreements, or they were largely lost in enlargement negotiations on other products.

To make matters worse, EC officials now tell us that the bottles holding all of our previous standstill rights were uncorked during multilateral trade negotiations, and those rights have since evaporated.

Mr. Chairman, what we understand the U.S. Government has communicated to the EC in the current dispute is the message that we do not want to see history repeat itself. The United States is justifiably wary of the GATT negotiating process and wants to see up front the compensation for market access we know we will lose.

The United States has also told the EC that we cannot accept measures that are patently illegal under GATT in the guise of transitional mechanisms for the two new members.

We applaud and support this unified administration stance.

Another key point the United States should make to the EC relates to my earlier comments about the weaknesses of the GATT rules on this issue. In addition to being hurt by the new import restrictions that will be adopted in Spain and Portugal, United States farm exports will be hurt, as they have in the past, by the extension of production—stimulating high price supports under the common agricultural policy, and by the extension of the so-called Community preference to the new members. Spain and Portugal will likely increase domestic agricultural production under the common agricultural policy which will reduce imports into those countries. The duty-free access available to other EC members—as opposed to the high variable levy applied on trade from non-members—means that any remaining import requirements will be filled by other EC members, not traditional suppliers such as the United States. This is a major problem that is simply not addressed by the GATT. The EC has, therefore, historically refused to accept that such trade damage should be considered in the enlargement negotiations.

At this point, Mr. Chairman, I was going to comment in the next paragraph on the ways U.S. agriculture will be hurt, but I think the previous speakers have adequately covered this.

I would like to conclude my statement by responding to an argument that EC officials frequently make in our agricultural trade disputes.

They say the United States should be content with EC actions because, after all, we still maintain a positive trade balance in agriculture with the Community. The implications is, of course, that the United States would have more to lose in a trade war.

First, I would like to point out that our farm exports to the EC, that is the EC of 10 members, have fallen from a high of $10.3 billion in 1980 to $5.3 billion last year. Our farm imports from the EC reached $3.4 billion last year, so the gap is rapidly narrowing.

Senator BOSCHWITZ. What was it a few years ago?

Mr. KLECKNER. The imports from the EC?

Senator BOSCHWITZ. Yes.

Mr. KLECKNER. I am not sure, Mr. Chairman. We will get that for you.

Senator BOSCHWITZ. All right.

Mr. KLECKNER. Of the $5.3 billion in U.S. farm exports to the EC, $2.4 billion are in oilseeds and products and corn gluten meal, imports of which the EC has been trying to reduce for years.

What is so ominous about current EC actions is that these products again are targets. We fear that the Community would like nothing more than to use the obscure and confusing enlargement negotiations as a device to establish import-reducing and revenue-generating measures on U.S. soybean products and corn gluten feed. If this is allowed to happen, the EC soon would not be able to make their claim that the trade balance favors the United States.

Mr. Chairman, American farmers do not want a trade war with the EC. Neither side would benefit from that. However, Farm

Bureau is convinced that the United States must protect its trade rights from the beginning of the enlargement exercise or, as in the past, they will be lost.

We therefore continue to support the efforts by the Government to maintain a fair balance in our bilateral GATT rights while the negotiations proceed.

Thank you very much.

Senator BOSCHWITZ. Mr. Kleckner, I would ask your staff to give me a longer history of the import-export trade balance with the Europeans so that I would have that also, and if you would get that to me during the course of the day.

Mr. KLECKNER. We will do that.

Senator BOSCHWITZ. I might also note that you stated there was $5.3 billion in U.S. farm exports to the EC, $2.4 billion in oilseeds and products and corn gluten meal. The Secretary said $4.3 billion, which I thought was——

Mr. KLECKNER. I noticed he said that, and I do not know the discrepancy. We will check that for you, too, Mr. Chairman.

Senator BOSCHWITZ. That would be very nice.

I might say that I find the historical aspects of this very interesting, and have arranged a meeting with some of our trade people for the afternoon and we will pursue it.

I agree that right up front the compensation for market access as we know it will be lost. The reason I asked for the figures is they are going to say not only do we have a positive trade balance with the Europeans—which is eroding, as you know—but that we have had increasing trade with the Europeans over the years. That is why I would like to have the figures.

You might, in presenting those figures, if you can, also state what percentage of our exports the Europeans represented, because all of exports swept upwards, and the question is whether or not the exports to the Europeans were faster than the others.

I note that Senator Leahy from Vermont is with us. If you would like to make an opening statement, Senator.

Senator LEAHY. I will put that in the record, Mr. Chairman.[1]

Senator BOSCHWITZ. So ordered.

Senator LEAHY. I do have a few questions. Administrations in the past, both Democrat and Republican have been willing to give all kinds of concessions to the Europeans in those areas where the Europeans want to develop their industry, whether it is manufacturing, farming, or anything else. In those areas where the United States really could compete if we want to, we suddenly have to put the brakes on. I realize that is somewhat of an oversimplification, but it seems to me that oftentimes our negotiators are far more willing to put the brakes on U.S. industries than on the people they are supposed to be negotiating with.

As a lawyer, when I negotiated for a client, I tried to get the best deal for my client. I wish that our American negotiators realized that their first and foremost duty is to negotiate for U.S. interests—something that we think would be a matter of common sense, but sometimes gets lost.

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[1] See p. 56 for the prepared statement of Senator Leahy.

Do you have any idea of how much in the way of dairy products are subsidized—dumped—from the EC into the United States? What kind of a balance is there?

Mr. KLECKNER. Senator Leahy, I will get those figures for you also, but my recollection of this is that there is a large dumping from the EC into the world market, and we are simply not competing in that area of dairy.

Senator LEAHY. That is my belief, too. I did not expect you to have the figures right off the top of your head. But could you get those for us? We have dairy farmers out in Minnesota, don't we, Mr. Chairman?

Senator BOSCHWITZ. Yes; we do.

Senator LEAHY. I know we do in Vermont. I think these dairy farmers, the ones in Minnesota, the ones in Vermont, or the farmers in other States are able and willing to compete with dairy farmers anywhere in the world, but they would like to play on a level playing field.

I know Minnesota is justly proud of its standards that it sets for dairy production. We certainly are in Vermont. We keep very clear standards of testing, of sanitation, and of everything else that affects milk products. We also find that our people have to compete against an awful lot of imports into this country that are subsidized by the countries of origin, that are not produced according to the same standards of sanitation, quality control and everything else that we adhere to. Then we tell our farmers, "Get out there and compete." They are willing to do so—if everyone has the same ground rules. So, if you could, please provide the figures, of what the dairy trade balance is; how much comes in, how much goes out.

Mr. KLECKNER. We will provide that.

Senator LEAHY. Thank you.

Senator BOSCHWITZ. I might say to my friend from Vermont that I believe the export restitution that the Europeans paid for dairy exports, not all of which came to the United States, of course, was more than the cost of the whole-herd buyout.

Senator LEAHY. Is that right?

Senator BOSCHWITZ. Yes. I understand it was $1.8 billion last year.

Senator LEAHY. That should tell us something.

Senator BOSCHWITZ. Yes; that is right.

[The following information was subsequently received by the committee:]

AMERICAN FARM BUREAU FEDERATION,
Washington, DC, May 6, 1986.

Mr. DAN PEARSON,
Legislative Assistant, c/o Senator Rudolph E. Boschwitz, U.S. Senate, Hart Senate Office Building, Washington, DC.

DEAR DAN: Enclosed is the material requested by Senators Boschwitz and Leahy at today's Agriculture Committee hearing on EC enlargement.

As you can see from "Table 16," U.S. exports to the EC of all feeds and fodders (mostly corn gluten feed) and oilseed products were $2.5 billion in fiscal year 1985. From a separate USDA source, I obtained the more precise figure of $2.4 billion that appeared in our testimony, including only corn gluten feed. USDA and others fre-

quently use the $4.5 to $4.8 billion figures because that is what they used to be. Exports have slipped in recent years.

Sincerely,

PAUL A. DRAZEK,
Assistant Director,
National Affairs Division.

Enclosures.

EC AS A PERCENT OF TOTAL U.S. AGRICULTURAL EXPORTS

[Dollar amounts in billions]

	Total	EC	Percent EC of total
Calendar year:			
1977	$23.6	$6.6	28.0
1978	29.4	7.1	24.1
1979	34.7	7.6	21.9
1980	41.2	8.9	21.6
1981	43.3	9.1	21.0
1982	36.6	8.3	22.7
1983	36.1	7.3	20.2
1984	37.8	6.4	16.9
1985	31.2	5.2	16.7

Source: U.S. Department of Agriculture.

U.S.–EC TRADE BALANCE IN DAIRY PRODUCTS

	1983–84		1984–85	
	Quantity (MT)	Value (dollar per 1,000)	Quantity (MT)	Value (dollar per 1,000)
U.S. exports	3,261	5,433	3,975	5,232
U.S. imports	108,699	285,898	126,850	298,627
Balance	−105,438	−280,465	−122,875	−293,395

Source: U.S. Department of Agriculture.

TABLE 16—U.S. AGRICULTURAL EXPORTS TO THE EC, VALUE AND VOLUME BY COMMODITY, FISCAL YEARS 1981–85

Commodity	1981	1982	1983	1984	1985 [1]
			Million dollars		
Animals and prods	780	942	749	734	579
Meats and prods	254	221	161	139	132
Inedible tallow	94	147	80	78	58
Cattle hides, whole	15	89	67	90	80
Grains and feeds	2,746	2,195	1,749	1,788	1,207
Wheat and flour	482	448	272	210	159
Rice	103	166	83	111	83
Feed grains	1,423	866	521	620	295
Feeds and fodders	717	701	858	830	[2] 655
Fruits and prep	261	194	183	154	115
Nuts and prep	304	274	224	248	301
Vegetables and prep	189	178	152	141	120
Oilseeds and prods	3,806	4,190	3,610	2,639	1,892
Oilcake and meal	788	945	955	585	314
Soybeans	2,602	2,975	2,414	1,795	1,350

Tobacco, unmfg	494	478	529	476	533
Cotton, except linters	155	194	186	309	309
Residual	186	243	246	228	280

TABLE 16—U.S. AGRICULTURAL EXPORTS TO THE EC, VALUE AND VOLUME BY COMMODITY, FISCAL YEARS 1981–85—Continued

Commodity	1981	1982	1983	1984	1985 [1]
Total	8,921	8,888	7,628	6,717	5,336
Total above	4,523	4,891	4,468	3,469	2,547
			Thousand metric tons		
Meats and prods	152	147	127	113	114
Inedible tallow	217	348	218	172	133
Wheat and flour	2,592	2,647	1,649	1,279	1,029
Rice	219	522	227	343	256
Feed grains	9,826	7,421	4,245	4,362	2,513
Oilcake and meal	3,305	4,239	4,439	2,519	1,778
Soybeans	8,757	11,552	10,029	6,273	5,786
Tobacco, unmfg	97	87	93	80	90
Cotton, exclude linters	80	122	120	193	193

[1] Preliminary.
[2] Most of this is corn gluten feed.
Sources: U.S. Bureau of the Census and ERS estimates.

TABLE 17.—U.S. AGRICULTURAL EXPORTS, VALUE BY REGION, FISCAL YEARS 1980–84

[Dollar amounts in millions]

Region	1980	1981	1982	1983	1984	1985 [1]
EC	$10,333	$8,921	$8,888	$7,629	$6,717	$5,335
Other Western Europe	2,940	3,010	3,283	2,519	2,547	1,849
Total Western Europe	13,273	11,931	12,171	10,148	9,264	7,184
World total	40,481	43,780	39,095	34,690	38,026	31,187
Proportion of U.S. farm exports to Western Europe (percent)	32.8	27.3	31.1	29.3	24.4	23.0

[1] Preliminary.
Source: U.S. Bureau of the Census and ERS estimates.

US/EC TRADE BALANCE AGRICULTURAL AND NONAGRICULTURAL TRADE 1977–1985

[In millions of dollars]

	1977	1978	1979	1980	1981	1982	1983	1984	1985
U.S. exports to EC:									
Agriculture	6,620	7,176	7,640	8,929	9,059	8,293	7,300	6,450	5,190
Nonagriculture	19,228	24,177	34,031	43,771	42,255	39,640	37,002	40,525	38,406
Total	25,848	31,354	41,672	52,700	51,313	47,932	44,302	46,975	43,596
U.S. imports from EC:									
Agriculture	1,371	1,859	1,884	2,066	2,256	2,453	2,767	3,238	3,573
Nonagriculture	20,945	27,413	31,728	34,055	39,196	40,056	41,125	57,028	60,933
Total	22,316	29,272	33,613	36,122	41,452	42,509	43,892	60,266	64,506
Net U.S. trade balance with EC:									
Agriculture	5,249	5,317	5,756	6,863	6,803	5,840	4,533	3,212	1,617
Nonagriculture	−1,717	−3,236	2,303	9,716	3,059	−416	−4,123	−16,503	−22,527
Total	3,532	2,081	8,059	16,578	9,861	5,423	−410	−13,291	−20,910

Note.—Columns may not add due to rounding.

Source: U.S. Census, March 1986.

Senator BOSCHWITZ. Now, we turn to Robert Frederick, the legislative director of The National Grange. I might say the Grange very carefully fixed its issues on which it comes before this committee. So we look forward to your testimony.

STATEMENT OF ROBERT FREDERICK, LEGISLATIVE DIRECTOR, THE NATIONAL GRANGE

Mr. FREDERICK. Thank you, Mr. Chairman.

I am Robert Frederick, legislative director of The National Grange, with offices at 1616 H Street here in the city.[1]

There is no doubt that the extension of the Community's market organization to include Spain and Portugal will result in both increased trade barriers and changes in production and consumption patterns. The grain sector will be the hardest hit because the relatively low duties on grains in Spain and Portugal will be replaced by the European Community's variable levies after accession.

The danger also exists that the European Community may attempt to use enlargement as an opportunity to achieve its longstanding desire to impose restrictions on imports of soybeans.

The National Grange strongly supports the efforts that are being made by members of this Subcommittee and many other Senators, and by the administration trade officials, in demanding that the European Community rescind its illegal Portuguese quotas and negotiate with us for satisfactory compensation for United States export markets lost as a result of higher import duties on grain into Spain.

These European actions represent a continuation of longstanding policies which, through variable levies and ineffective programs of production restraints, have caused U.S. farmers to bear an inordinately large share of the costs of restructuring the agricultural system of the European Community.

Those policies have induced such high levels of EC grain production that extensive and unfair export subsidies to Third World markets have been used in recent years, again at the expense of the United States and other world grain suppliers.

The EC's failure to consult appropriately as required by GATT represents a high-handed and uncooperative approach to the current critical problems of EC, U.S., and world agriculture. Such emphasis on unilateralism exacerbates the inevitable conflicts of interest which face these long-time trading partners and strong political allies.

The temptation to solve a domestic problem at the expense of a trading partner is difficult to resist. How to move to a situation where farm policies in various countries can coexist without causing international tensions is a major task facing agricultural trade interests, in both importing, and exporting countries, and must be seriously addressed in the forthcoming multilateral trade negotiations.

The current dispute must be resolved by aggressive negotiations which take fully into account the serious economic damage to U.S. agriculture, which is threatened by the EC proposals and which

[1] See p. 63 for the prepared statements of Mr. Frederick.

will result in costs of EC agricultural restructuring to be borne equitably by members of the European Community.

Failure to do so would result in further damaging tensions in U.S.-EC relations and would seriously undermine opportunities for a successful new round of GATT negotiations which could reverse the tides of protectionism now threatening the world trading system.

We commend the actions of Secretary of Agriculture Richard Lyng and United States Trade Representative Clayton Yeutter and their EC counterparts in lowering the level of confrontation over the EC enlargement. The threats and counterthreats, actions, and counteractions, were producing a climate wherein serious negotiations would have been extremely difficult. By buying time, we hope that the conflict can be successfully resolved.

Despite the negative effects on U.S. trade, in particular U.S. agriculture, we agree with our Government's support for the admission of Spain and Portugal to the EC. Nevertheless, we will strongly object to any attempts that are made by the EC to use our political and economic considerations regarding their enlargement as an opportunity to increase trade barriers, in a manner that is inconsistent with their international obligations.

It seems that we pay a high price every time there is restructuring of agriculture in the EC or expansion because of the political and economic factors involved in supporting a strong Europe. They seem to forget that they are primarily the beneficiaries of the economic, and political strength, that a combined Western Europe brings forth, and not just the United States.

I want to thank you, Mr. Chairman, for providing us this opportunity to present our views, and I will be glad to respond to any questions.

Senator BOSCHWITZ. Thank you.

Now we turn to Mr. Quarles, from California. You will have to write down who you are related to—my next door neighbor happens to have that same name, and it is an unusual name—so I can tell them who you are. You will have to tell me where your family is from, in writing, before you leave.

Mr. QUARLES. I do not run across the name very often, either, Senator.

Senator BOSCHWITZ. No.

May I ask you, Senator Leahy, are you going to be here for a few minutes? I am supposed to be in the Capitol at noon.

Senator LEAHY. As am I.

Senator BOSCHWITZ. We have the same problem.

Senator LEAHY. But if you want to go, go ahead.

Senator BOSCHWITZ. Fine. I do want to listen for a few moments, so if you would highlight your testimony, Mr. Quarles.

But thank you. I will go in a minute.

STATEMENT OF WILLIAM K. QUARLES, JR., VICE PRESIDENT, SUNKIST GROWERS, ON BEHALF OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. QUARLES. Thank you, Mr. Chairman and members of the committee.

I am William J. Quarles, vice president of government affairs with Sunkist Growers. Sunkist is a member of the National Council of Farmer Cooperatives.[1] I am here today on behalf of the over 5,000 local farmer cooperatives represented by the national council and the nearly 2 million farmer members.

National council members handle practically every type of agricultural commodity produced in the United States. They market these commodities domestically and around the world and furnish production supplies and credit to their farmer members and patrons. As a result, the farmer members of the National Council have a substantial interest in agricultural export developments.

The European Community accession of Spain and Portugal will affect a broad range of U.S. agricultural products, many of which have longstanding trade issues with the European Community.

This committee has received numerous testimony concerning the impacts on the major grains, oilseeds, and oilseed products. The bulk of the approximately $1 billion of lost exports due to accession would be represented by these commodities.

The National Council of Farmer Cooperatives shares their concerns and continues to stress that a viable U.S. agricultural sector cannot be maintained without fair trade to permit our competitive capabilities to work in the marketplace.

But the impacts go beyond these commodities. Indeed, if you examine the commodities considered by the United States and the European Community as candidates for retaliation and counterretaliation, the range of commodities widens rapidly.

Many of these commodities have had ongoing trade disputes with the European Community for some time, and the enlargement of the European Community to include Spain and Portugal is likely to further complicate the problems if the rules of trade are not clarified. A few examples are noteworthy.

In 1981, the California raisin industry joined with the California canned fruit industry in a section 301 action protesting the European Community's policies with respect to those commodities.

With the support of many of you on this committee, the industries were able to persuade the U.S. Government to take the matter to GATT dispute settlement. After 2½ years of deliberations, the GATT panel determined that U.S. rights had been violated. The resolution of the canned fruit case last November calls for a reduction in the European Community processing subsidy of 25 percent for the 1986 season, and the complete elimination by 1987. Since the United States is the main destination for Spanish exports of canned peaches, their accession to the European Community will need to be monitored to ensure compliance with the resolution of the GATT dispute.

With respect to raisins, the success was short lived. Dissatisfied with the panel's ruling, the European Community filed an unorthodox request to reopen the record. Over strong U.S. protest, the panel reversed its decision on raisins without significant explanation. The impetus for regulating a settlement has now been eliminated.

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[1] See p. 65 for the prepared statement of Mr. Quarles.

European production of table wine occurs principally in several countries that are members of the European Community—France, Italy, and Germany. With the inclusion of Spain and Portugal, the European Community member states will account for over one-half of total worldwide production of wine and represent six of the seven leading sources of U.S. wine imports.

European Community wine producers benefit from a wide variety of subsidies. The European Community national and regional governments provide both export subsidies and domestic subsidies, the latter not being generally available within each country.

As such, these subsidies are all countervailable within the meaning of the U.S. duty law. The dismantling of these subsidy programs will help restore a fair balance in world trade in wine.

Over the past 16 years, the United States has sought a practical solution to the illegal Mediterranean Basin tariff preference scheme on citrus. Despite a GATT panel recommendation in 1984, the European Community's preferential tariff scheme has upset the balance of rights and obligations on fresh oranges and lemons from the United States. The European Community still has not given consideration to these concerns.

On October 31, 1985, the President sought compensatory retaliation from the European Community by increasing the duty on European Community pasta by about 10 cents a pound. In counterretaliation, the European Community unlawfully raised its duties on lemons from 8 to 20 percent and on shelled walnuts from 8 to 30 percent.

So that the Italian pasta industry would not feel the effects of the U.S. duty increase, the pasta restitution payments were greatly enlarged by the European Community.

Since this exchange of retaliation and counterretaliation, little progress has been made in achieving a solution, and there seems to be no resolve on the part of the European Community to negotiate a change in the status quo.

While the United States has not been able to resolve many of these issues, we are now sending a clear signal to the European Community. The administration and the Congress are making it clear that America has never been afraid to compete. When trade follows the rules, and there is an equal opportunity to compete, American agriculture is as competitive as any. This is fair trade, and it should not be impaired.

However, when this condition does not exist, it is unfair trade, and we must seek a correction.

No one wins in a trade war. It is sincerely hoped that bilateral negotiations on accession may lead to a near-term correction of the Portuguese restrictive practices and an adequate offer of compensation in connection with Spanish trade restrictions. I believe we would all welcome such a result.

In the absence of such a result, the United States would need to move forward with the proposed retaliatory action while continuing to pursue other United States-European Community disputes, such as those mentioned above, on a separate track.

In conclusion, this committee is to be commended for their outstanding efforts in formulating an aggressive trade title in the Food Security Act of 1985 and incorporating a domestic policy con-

sistent with our international objectives. The Targeted Export Assistance Program is providing immediate promotional assistance to many U.S. commodities damaged by unfair trade practices.

Your continuing concern and vigilance with respect to the operation of world markets is vital at this time. These markets hold the key to the future prosperity of U.S. agriculture and it is essential that the United States defend and promote a more open, worldwide trading system.

I thank you, Senator, for the opportunity to appear before the committee, and I would be happy to answer any questions.

Senator LEAHY [presiding]. You say when all traders follow the rules that U.S. farmers are able to compete, and nobody wins in a trade war. I believe that is basically a summary of a couple of points you made. I agree with your view. I have served on this committee now longer than all except, I guess, Senator Dole and Senator Helms. In all that time, every year, with three different administrations, I hear, "By God, we are going to get their attention this year, and we are just going to get these things straightened out. We are going to tell them, 'You are going to have to shape up, because everyone is going to have to play by the rules.' " And then the following year we hear, "By golly, this year we are going to tell them they have got to shape up and play by the rules."

I wonder if at some point, if agricultural interests are continually ignored, whether a trade war is all that bad an idea?

I am not suggesting we rush out and declare a trade war tomorrow. I recall a situation wherein until the Secretary of Defense got upset about it, Secretary Block got the attention of a few folks by sending a little surplus wheat over to Egypt. All of a sudden, everybody began to think, "Well, maybe we had better start playing by the rules here." We have got the capacity, if we want, to get everybody's attention. We are the proverbial 900-pound gorilla in this circumstance. While I prefer that everybody play by the rules, if they are not, then we ought to just use our enormous agricultural power.

Mr. QUARLES. Absolutely, Senator. I agree with you 100 percent. As a matter of fact, we started in 1969, trying to deal with the European Community on the tariff preference scheme, and it is virtually unchanged today.

You suggested, and I think you are absolutely right, that the European Community fully expects in the last analysis that the United States will back away again.

Senator LEAHY. There is certainly precedent for it.

Mr. QUARLES. There is a precedent, an unfortunate one, and I think that the European Community probably fully expects the United States to do that again. I agree with you that would be a serious mistake. While I suggested that no one wins in a trade war, it certainly would be beneficial, and I think that all of us here would agree with the idea that if we must escalate this in order to gain the European Community's attention, then so be it.

Senator LEAHY. Well, gentlemen, I think you all made good points. I think we are all agreed on the fact that we would love to have the rules just apply to everybody equally. Much of what is in the GATT rules makes a great deal of sense if the rules are all followed. An awful lot of our agricultural industry would benefit. If

they are not, well, then, we ought to just play by the old market rules. That is my feeling, for whatever it is worth. I do not expect my own State of Vermont to be a massive player in that confrontation, with a half-million people, but we have a lot of folks in my State who would be *perfectly willing to compete on that basis.*

Gentlemen, I thank you for coming here. I have a great deal of respect for each of the three of you, individually, and for your organizations. I am glad that you had a chance to be here with us today.

Thank you.

We stand in recess, subject to the call of the Chair, whomever that may be at the time.

[Whereupon, at 12:20 p.m., the committee adjourned, subject to the call of the Chair.].

APPENDIX

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman: I don't know if it's coincidence or what, but I think it's interesting that agricultural trade was high on the list of topics at the recently concluded Economic Summit in Toyko. And with good reason. A meeting of the world's largest agricultural exporters is absolutely necessary to avoid an agricultural trade war. And even now we may be too late. I suppose we'll get the European view on this issue a little later.

One thing is absolutely clear to me, Mr. Chairman. Nobody wins in a trade war and the scars of a trade war may be a long time healed. I commend you for holding these hearings today.

Perhaps a brief statement of clarification on the broader issue of international economics is in order. International markets are not only unstable, but changes in those markets are very difficult to predict. Such factors as exchange rate fluctuations, foreign exchange shortages, interest rate fluctuations, internationalization of recessions and income fluctuations compound the problems of instability and unpredictability for export demand. In light of these uncertainties, a farm bill was enacted which was proactive instead of reactive. By that, I mean that U.S. farmers will not be undercut on world commodity markets and our friends in Australia, Thailand and Europe have found that our grain pricing policies have indeed entered a new era.

A major U.S. foreign policy goal must be to obtain a new round of comprehensive trade negotiations pertaining strictly to agricultural commodities. Negotiations for agriculture will have to take account of the work of the GATT Committee on Trade in Agriculture (CTA) since 1982. The CTA focused on improving GATT rules on import barriers and export subsidies. The European Community has insisted that in the new round agricultural issues must be discussed only in the CTA or other separate agricultural groups to the exclusion of efforts in other negotiating groups to cut tariffs, reduce subsidies or liberalize trade for all products. The EC position, aimed at blocking progress on agriculture, is likely to present a major procedural issue. Especially in light of the issue which has precipitated these hearings, it is totally unacceptable to accept the EC's position.

Our objectives in the next round of GATT negotiations must encompass agricultural exports as a broad component of the whole field of trade. For example, we must work to eliminate costly ag export subsidies which cost American and European taxpayers billions of dollars which could be better spent elsewhere. We

must also insist that any revised GATT agreement include a mechanism to deal with blatant violations of the agreement. Failure to provide for strict enforcement of GATT trading provisions will insure that our European trading partners will continue to compete unfairly in the international market place.

As the members of this Committee know, this whole dispute came to a head in January of this year when Spain and Portugal were admitted to membership in the EEC. Certain restrictions, including quotas on soybeans, purchase requirements and increased tariffs, were placed on the Spanish and Portuguese governments in clear violation of the GATT treaty. This blatant disrespect for international trade law could potentially cost American farmers billions of dollars in export sales.

The United States government quite correctly threatened to retaliate against the EEC if the restrictions I mentioned were implemented. And right on cue, the EEC threatened retaliation against us. This whole situation is absurd, especially considering that the EEC actions are in outright violation of the GATT agreement. Mr. Chairman, I, for one, want to congratulate the President and U.S. Trade Representative Yeutter for finally saying enough is enough by actively protecting U.S. rights under GATT.

I look forward to hearing the testimony from today's witnesses. From Secretary Lyng's past statements, I believe he intends to take an aggressive export stand even if it incurs the wrath of some of America's trading competitors. We must send a loud and clear message to the EEC that U.S. farmers will no longer stand by and allow our markets to be taken. I'm anxious to hear from them today to see if they've got the message.

The over 70 town meetings that I have conducted since I was elected, one recurring theme was that something must be done to protect American farmers. I told them that, on a level playing field, American farmers can compete against anybody in the trade arena. It's obvious from the EEC reaction to our proposed trade sanctions that the playing field is becoming more favorable for U.S. producers. We have the tools in the farm bill to create an environment which lends itself to fairer international trade; I hope we continue to aggressively use these tools as we implement what now looks like a better farm bill than most of thought it was. Thank you Mr. Chairman.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, I commend you for calling this hearing on the effects that the accession of Spain and Portugal to the European Economic Community will have on U.S. agricultural exports.

This issue is of critical importance to the American farmer and to the citizens of the United States. It is of critical importance to my own State of Illinois.

The adoption of these proposed restrictions by the European Economic Community would impair access of U.S. agricultural products to the EEC and would shift the burden of these adjustments to other nations.

I cosponsored a Senate concurrent resolution, along with 21 of my Senate colleagues, which passed the Senate on April 17, 1986. It expresses the sense of Congress in opposition to the import restrictions imposed by the European Community that adversely affect U.S. agricultural exports and urging the President to use the to the fullest extent his authority to respond to these practices.

The European Community, as part of the terms under which Spain and Portugal joined the EEC in January, 1986, has decided to impose a number of restrictions which seriously impact on as much as $1 billion worth of U.S. agricultural exports.

The restrictions in U.S. agricultural trade with Portugal include quotas on the importation and consumption of oilseeds and oilseed products, and a requirement that Portugal purchase at least 15.5 percent of its grain from the EEC.

Between 1984 and 1985, U.S. exports of soybeans and soybean products to Portugal have decreased in value by 32 percent; to Spain by 43 percent; and to the European Economic Community by 24 percent.

Spain's 20 percent tariff on imports of corn and sorghum was replaced with the EEC's "variable levy," currently equivalent to a tariff of more than 100 percent. However, Spain had agreed in previous trade negotiations not to raise its tariffs on these two items. International trade rules require the European Community to compensate the United States for the injury to our exports caused by the higher levies. It is possible that the new variable levy system will increase by 30 to 80 percent the cost of buying American grain.

U.S. exports of corn to the European Community declined 50 percent in value between 1984 and 1985.

I know that agricultural trade has been a priority of the seven-nation economic summit in Tokyo. It is vital that an agreement be reached on this matter quickly so that our farmers do not suffer more than they have already.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Mr. Chairman, I commend you for convening today's hearings on this very important issue.

The trade relationship between the United States and the European Economic Community is certainly of concern to the agriculture sector. However, it should be of national concern in this time of record high U.S. trade deficits.

American agricultural exports to Europe are seriously threatened by the new trade restrictions imposed by the EC that accompanied the accession of Spain and Portugal. While I understand and support the accessin of Spain and Portugal to the European Economic Community for the enhancement of democracy and economic growth, I do not feel that the United States, especially the American farmer, should bear the economic burden for this accession.

America's farmers will have to depend more and more on export markets with the new farm bill. I hope we in Congress, and the

administration, will do all that we can to promote a trade environment that will allow access to all markets.

I look forward to the comments of Secretary Lyng and others that are testifying today.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Mr. Chairman, I hope that this hearing will bring to the attention of the administration the need for immediate action to counter or offset adverse actions by the European Community that threaten access to legitimate markets for our farm exports.

The EC's agricultural policy has been a continuous problem for those of us in Congress interested in improving the U.S. farm economy. Most recently, Spain and Portugal, as a condition of entry to the EC, were required to use quotas and tariffs on certain agricultural products, notably corn and soybeans. U.S. exports of soybeans, soybean products, and corn to Spain and Portugal amounted to more than $1 billion. A loss of these sales could have a disastrous effect on our financially pressed farmers. The administration should make every possible effort to avoid this calamity.

I am pleased that U.S. negotiators have arranged a delay of the quotas and tariffs to be imposed by Portugal, but further steps must be taken to maintain legitimate foreign markets for our agricultural products.

Mr. Chairman, today's testimony should provide the committee with sound evidence concerning any possible legislative actions that might be necessary to bolster the President's efforts to respond to unfair trade and tariff practices of the EC. I look forward to reviewing today's testimony.

STATEMENT OF HAROLD CUTLER, FIRST VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

Senator Boschwitz and distinguished members of the Senate Committee on Agriculture, I am Harold Cutler, a corn grower and the first vice president of the National Corn Growers Association. It is an honor to testify before you today as a representative of the National Corn Growers Association, the National Grain Sorghum Producers Association, the National Barley Growers Association, and the U.S. Feed Grains Council. The restrictive trade actions taken by the E.C. and the U.S. response to these measures are of paramount importance to the U.S. farmers whose livelihoods depend on their continued access to export markets.

On March 1, 1986, the European Community (E.C.), under the terms of the treaty of accession, unilaterally imposed trade restrictions on imports of corn, sorghum and soybeans by Spain and Portugal. The U.S. producers of corn, sorghum and barley agree with the Administration's position that the E.C. actions are in direct violation of the General Agreement on Tariffs and Trade (GATT). We further believe that the decrease in access to the

market of Spain and Portugal does not affect U.S. interest alone, but damages all world trade.

We strongly support the Administration's response to the E.C.'s GATT illegal trade restrictions and we urge the U.S. to hold the line on its position until it achieves the desired objective.

Portugal has imported an average of 2.4 million metric tons of feed grains annually from all sources over the past 5 years. The United States has consistently been the dominant supplier of corn and sorghum to Portugal with an average market share of 98 percent since 1980. U.S. exports of corn and sorghum to Portugal have averaged more than $250 million during the last three years.

The E.C. requirement that Portugal purchase 15.5 percent of its feed grain imports from other E.C. member countries is clearly illegal under the terms of the GATT. The measure will cause the immediate loss of more than 200 thousand metric tons of feed grain exports by the U.S.

As the Portuguese state-run grain monopoly is gradually dismantled, the amount of grain imports subject to the variable levy will increase from 20 percent in 1986 to 100 percent by 1990, virtually eliminating U.S. access to that market. The U.S. Feed Grains Council estimates that by 1990 the entire Portuguese market of 1.4 million metric tons of feed grains will be lost as a result of the variable levy and displacement of U.S. feed grains with the E.C. grains, an annual loss of $165 million.

GATT rules require the E.C. to negotiate compensation with its trading partners for the loss of market access and injury to exports caused by replacement of Spain's bound tariffs on corn and sorghum with the E.C.'s higher variable levies. The imposition of the variable levy before the opportunity for negotiations to agree on compensation is in violation of the GATT.

The replacement of Spain's 20 percent bound tariffs on corn and sorghum imports with the E.C.'s variable levy will have a serious negative impact on both the U.S. and other suppliers of feed grains. Spain annually imported an average of 5.5 million metric tons of feed grains worth approximately $725 million tons from all sources. The U.S. will lose around $624 million in annual U.S. exports of feed grains. U.S. and other country exports of corn and sorghum to Spain will be displaced by E.C. supplies. Negotiations to resolve this issue and compensate the U.S. feed grains sector for lost markets should proceed.

U.S. feed grains producers stand firmly by the position that any compensation should be directed to the specific sector damaged by the trade restrictions. The U.S. feed grains industry supports the efforts of U.S. negotiators to achieve compensation beneficial to the sector experiencing market loss--in this case feed grains.

The combined markets of Spain and Portugal are the third most important market for U.S. feed grains exports. Annual U.S. exports of corn and sorghum to the Iberian Peninsula have averaged almost 6 million metric tons since 1980. Every effort must be made by this Administration to regain access to Spain and Portugal for U.S. exports of corn and sorghum or to receive compensation for the market losses.

Although we must recognize that Spain/Portugal accession to the E.C. is GATT legal, the E.C. has taken a very cavalier approach to its duties under the GATT to inform and negotiate with its trading partners the change in markets caused by its unilateral actions.

The E.C. must recognize its obligations to its trading partners, including the United States.

The Administration must not back away from the commitment it has made to American farmers to ensure that any solution to the dispute will adequately compensate producers who have been seriously damaged by the E.C. actions. If this issue is not settled fairly and compensation is not paid to U.S. grain producers, the outcome will be very expensive for the U.S. Government. Additional stocks held by the CCC, additional acreage to be set aside, and additional job and tax losses from the U.S. economy will be the costs. For these reasons, U.S. resolve to uphold free trade on a level playing field must not weaken in the face of E.C. threats of counter-retaliation or other U.S. foreign policy concerns.

Permit me to make the following points in conclusion:

(1) The United States did not request a change in the status of Spain and Portugal. The E.C. did, and it is for the E.C. to pay the bill for the change in line with its international obligations to its trading partners.

(2) The resolution of this issue should be timely, but we should not waiver in our resolve to carry through on this dispute until an acceptable settlement is reached.

(3) Compensation should be sector-specific and should involve all of the commodities losing markets because of the trade barriers and export subsidies inherent in the E.C. application of the common agricultural policy to Spain and Portugal.

(4) The U.S. agricultural community is watching developments in the U.S./E.C. trade dispute very carefully. U.S. agriculture's support for a new round of GATT negotiations will be strongly influenced by the results of this current trade issue.

(5) The U.S. feed grains sector that I am representing today, firmly backs the U.S. Government's staunch and unified position on sector-specific compensation, and on the need for trade retaliation if satisfactory compensation cannot be negotiated. We also believe that any resolution that does not address the underlying issue of export subsidies will fall short of our goals. Whether in this bilateral compensation dispute or in the multilateral GATT form, the primary issue concerning our industry is E.C. export subsidies. We must not lose sight of this objective.

[The following article was supplied by Mr. Cutler, and referred to in his oral presentation:]

[Reprint from Cargill Bulletin, May 1986]

ENLARGEMENT OF EC THREATENS SHOWDOWN WITH U.S. ON AGRICULTURAL TRADE DISPUTE

(By Robbin Johnson, Vice President, Public Affairs)

The United States and the European Community (EC) are poised for a trade-policy showdown in their long-running dispute over rights and obligations under the General Agreement on Tariffs and Trade (GATT).

The latest battle centers on recent EC expansion and its effects on agricultural trade. The entry of Spain and Portugal

into the Community will mean applying the EC's Common Agricultural Policy to those countries. According to U.S. officials, the market loss to U.S. farmers could total as much as $1 billion.

U.S. officials in the administration and in Congress used stern language in responding to the EC action. W. Allen Wallis, under secretary of state for economic affairs, called European protectionism "probably the most disruptive factor in the world trading system." Jesse Helms, Chairman of the Senate Agriculture Committee, was even more direct following his panel's passage of a resolution opposing the EC action and supporting U.S. retaliation. "The United States has allowed the EC, through is pernicious agricultural trade policies, to wage economic warfare on our farmers for too long," Helms said. "Congress is fed up with European attacks on our farmers and their utter disregard for fair trade".

EC officials, in turn, have vigorously defended their actions. "There's no reason to withdraw the programs because there is no damage," according to Willy de Clercq, EC commissioner for external affairs. Should the United States retaliate (a threat he termed "an unfriendly action, needlessly aggressive and difficult to understand"), the EC "would be obliged to take appropriate action to defend its interests", he added.

A mid-April meeting in Paris between U.S. and EC officials produced no fundamental change in positions but did lead to some softening of threats. Apparently, U.S. countermeasures, if imposed, will be structured to affect EC trade only as U.S. trade actually declines.

The unusually blunt language used and the strong positions taken by both sides in this latest battle in the agriculture trade dispute suggest poor prospects for prompt resolution of the matter. GATT rights and obligations are not self-enforcing, and past attempts to define and apply them to agricultural trade has left neither side completely satisfied. Both sides in the dispute are caught in circumstances that make agreement between the United States and the EC very difficult to achieve.

On the U.S. side, the agricultural community has suffered a prolonged and deep financial setback. A major reason has been a one-third decline in its exports since 1980.

The Community also finds itself in binding circumstances. Agricultural surpluses and unneeded production capacity have been expanding rapidly. With the costs of subsidized disposal growing faster than Community budget resources, the internal pressures on the EC to reform it agricultural policies are mounting.

Though the financial pressures on each side limit the room for maneuver, they also underline the need for compromise. Neither can afford to ignore world market realities in shaping internal farm policies. And while neither alone can reform the world agricultural trading system, together they could make major improvements in it.

Dispute Terms

The United States has challenged three aspects of the EC enlargement as illegal under GATT and damaging to its agricultural trade interests. These are:

o imposition of a quantitative limit on Portuguese oilseed imports;

- language in the accession treaty reserving shares of the Portuguese and Spanish markets for EC grain shipments; and
- withdrawal of Spanish tariff bindings on imports of feed grains without adequate compensation.

Enlargement also will result in erosion of U.S. grain exports to Portugal.

The United States has published lists of items on which it plans to withdraw tariff concessions of equal value, unless the Community either withdraws the illegal restraints or, in the case of Spanish feed-grain bindings, offers acceptable compensation through the process of negotiations required under GATT Article XXIV. The United States also has laid out a very specific timetable for necessary remedial EC action.

With regard to the Portuguese oilseed import quota, the EC argues that the import control is a temporary measure necessary during a transition to a more liberalized import regime. It also says the controls will be more transparent than the national system they replace and will permit U.S. oilseed exports to Portugal to grow.

With regard to reserving 15 percent of Portuguese grain imports to EC supplies, the EC argues that it is a reasonable grant to EC access to this market while the Portuguese grain import monopoly is dismantled.

And with regard to the unbinding of Spanish grain import duties, the EC argues that it is prepared to negotiate as required under GATT Article XXIV in the same manner that it did in 1960-62 with respect to its founding and in 1973-74 when the Community was enlarged to include Denmark, Ireland and the United Kingdom.

More generally, EC officials argue that the United States gains a more politically stable Europe from enlargement. They also argue that U.S. industry will benefit from generally lower Spanish and Portuguese tariffs after accession. And they point out that U.S. agricultural trade will not be harmed immediately by these measures. While acknowledging that U.S. farm exports eventually will suffer, they argue that these other benefits offset such harm.

The United States responds by acknowledging the political benefits of a more unified Europe but stresses that it cannot be expected to pay economically for such gains, which are gains shared with its allies. The United States also does not accept that tariff reductions in one sector are adequate compensation for increased trade restraints in other sectors. Once the customs union is formed, U.S. commercial interests will end up with less access to the Spanish and Portuguese markets than the "old" EC members.

The EC Commission also has proposed lists of items on which it would recommend retaliatory withdrawal of concessions, if the United States withdraws concessions. These recommendations have not yet been approved by the Council of Ministers. Still, the existence of this threat indicates how the enlargement dispute can escalate quickly, unraveling commitments worked out in earlier trade negotiations. There is also the possibility such unraveling could spread from agricultural product lists to industrial trade.

Dispute Background

The positions of both sides in this dispute are entrenched, in part because of the history of past agricultural trade problems. The GATT has proven ineffective in resolving agricultural trade differences, permitting grievances or abuses to accumulate.

The United States shares a major portion of the blame for GATT's ineffectiveness. When GATT's agricultural trade provisions were drafted, the United States had domestic farm programs supporting internal prices above would market levels. It wanted and got very flexible provisions for agricultural import restraints and export subsidies. Important sectors of its farms economy -- including dairy, sugar and peanuts -- still rely upon these protections.

The United States also has contributed to the current level of misunderstanding by failing to draw the line in similar disputes in the past. Both when the Community was formed and and when it was enlarged from six to nine, the United States asserted claims for damage to its grain trade but did not press them to a clear solution. The inconclusive result of past disputes is making it more difficult for the United States to convince the Community that the problems are more serious this time.

For its part, the EC also have contributed to these mounting tensions. Though it has maintained the duty-free access assured soybeans and non-grain feedstuffs under GATT, there have been periodic threats to these bindings. Moreover, the Community grants generous production and stimulating uneconomic output that displaces imports.

The EC also has tested the limits on agricultural export subsidies even with the GATT's loose rules. And, where it has encountered adverse panel rulings, it has blocked their implementation.

These specific incidents reflect a more pervasive development of great concern to the United States. That is the dramatic change in the Community's agricultural role since the last enlargement negotiations in the early 1970s. Since then:

- o the EC has gone from a net importer of 20 million tons of grain to a net exporter of 20 million tons;
- o it has nearly tripled its share of world wheat and flour exports;
- o it has reversed its role from net importer to the largest exporter of sugar, beef and veal, poultry and eggs; and
- o it is the largest exporter of dairy products.

Very simply, the Community's agricultural policies have made a vigorous competitor out of a good customer.

Excessive production subsidies, high internal prices constraining domestic usage and massive export subsidies have gone a long way toward making the Community the world's largest exporter of agricultural products.

Avoiding Conflict

With both the Community and the United States following imperatives they cannot ignore, prospects for avoiding conflict are not good. The EC's position is that its derogations of GATT agricultural trade rules are not unreasonable ones and should be weighed against U.S. gains in other areas. The U.S. position is

that they are violations. Either the harm must be avoided or the EC must offer adequate compensation, preferably in the adversely affected agricultural sectors.

Neither side wants to begin the process of unraveling past trade concessions, and both lose if that is the outcome of this dispute. Perhaps the shared desire to avoid conflict will encourage both sides to broaden the discussions beyond the narrow terms of the enlargement dispute. This is not a narrow conflict, and meaningful progress will not be achieved by treating it as such.

Finding an acceptable compromise, in other words, may require broadening discussions to the underlying causes of farm trade problems. Those causes are excessive production incentives and aggressive surplus disposal subsidies. Such policies have driven a wedge between domestic markets and the world market, protecting the former while disrupting the latter.

Both the United States and the European Community would benefit from serious discussions of ways to close this gap between domestic and world markets. If the enlargement dispute stays on its current course, confrontation seems unavoidable. If it turns to shared concerns about agricultural trade problems, some form of compromise may be possible.

STATEMENT OF BUD LEUTHOLD, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and Members of the Committee:

I am pleased to take this opportunity today to comment on the effects the EEC enlargement will have on U.S. agricultural exports. My name is Bud Leuthold, and I am president of the National Association of Wheat Growers. I am a wheat farmer from Billings, Montana.

The recent enlargement of the European Community to include Spain and Portugal has increased trade tensions between the U.S. and the Community. The U.S. wheat industry will be directly affected by new quantitative restrictions on Portuguese grain imports from within the Community. The U.S. currently supplies virtually 100 percent of the 600,000 ton wheat import demand of Portugal, but the Portuguese will now be required to purchase 15.5 percent of their wheat imports from EEC member states. This reservation will be in force for four years while the state-controlled grain import agency is progressively dismantled. Effectively, however, U.S. wheat imports will be almost entirely replaced by EEC wheat within that period of time because of the progressive privatization of Portugal's import agencies and the manner in which the variable import levy of the CAP will operate to discriminate against non-Community imports under the transitional system.

In the case of Spain, over the longer term, the Community's wheat surplus will grow, creating additional impetus to the CAP's aggressive export practices. With the EEC support price for durum wheat more than 30 percent higher than the domestic price for such wheat in Spain, Spanish production will undoubtedly increase significantly. USDA research shows, in fact, that over a period of perhaps five years increased grain production in Spain, in

combination with increased displacement of non-EEC grain imports, will swell world grains stocks by 11 million tons. USDA reached this conclusion by observing that the United Kingdom's grain yields increased dramatically after entering the EEC in 1978. In only three years, the UK became a net grain exporter, while she had been a net importer before becoming fully covered by the CAP. The Spanish will likely increase their grain yields by a similar factor in response to EC production incentives.

We applaud the strong U.S. reaction to the GATT-illegal quotas and tariffs that went into effect March 1, with the entry of Spain and Portugal into the Common Market. The U.S. Government has threatened the imposition of immediate and equivalent import barriers to dissuade the Europeans from going forward with their announced trade actions and have demanded that U.S. interests be compensated for the potential loss of $1 billion in farm sales which would result from new EC restrictions.

The force of this response has led both sides to the negotiating table to avoid open conflict. But ag trade negotiations with the Europeans typically consume many months and years before any resolution, or even partial resolution, can be reached. Because of this reality, and because the wheat industry will in no way receive compensation for the loss of the Portuguese wheat market, even if the negotiations are successful, our Government must be willing to aggressively counter EEC actions with export programs to boost U.S. wheat exports. In this regard, greater utilization of the export enhancement program, and expansion of food aid initiatives are essential.

Over the longer term, more effective and streamlined dispute resolution procedures under the GATT could to some extent discourage massive export subsidies of the kind used by the European Community. We encourage our Government to try to improve the GATT as a more effective recourse for trade disputes. But in the meantime, export subsidies applied by the Community are set at around $90 per ton, or two-thirds the value of soft wheat in the world market. We must stand against these aggressive and unfair policies.

Thank you very much for your consideration of our views, Mr. Chairman, and I will be pleased to answer questions at the appropriate time.

STATEMENT OF ROBERT M. FREDERICK, LEGISLATIVE DIRECTOR, THE NATIONAL GRANGE

I am Robert Frederick, Legislative Director of the National Grange, which has offices at 1616 H St., N.W. Washington, D.C.

The National Grange is a general farm organization that represents more than 400,000 members in both farm and rural areas in 41 states. Since our beginning in 1867, the National Grange has been deeply involved with our national interests as well as with the special and vital interests of the agricultural economy.

Our farmer members produce a wide variety of commodities, which range from the grain and oilseed crops that are such a major part of world trade to producers of speciality crops and animal agriculture. All of these farmers are greatly affected, directly

or indirectly, by the stability and vigor of the world's trading system.

American farmers, many of whom are currently having severe financial difficulties, are greatly concerned that U.S. agricultural exports have been in a sharp decline since reaching a high of $44 billion in 1981. The United States Department of Agriculture is estimating that the decline will continue through 1986 with agricultural exports reaching a modern low of $28 billion. This trend must be reversed if U.S. farmers are to have any chance of slowing the rate of failures and foreclosures that are bringing such distress and economic disaster to rural areas across the Nation.

I need not repeat to this Committee the most recent threat to U.S. agricultural exports by the proposed action of the European Community (E.C) as Spain and Portugal are added to the E.C. membership. They have been well documented by previous witnesses who represent the commodity groups that are most affected by the E.C. enlargement.

There is no doubt that the extension of the Community's market organization to include Spain and Portugal will result in both increased trade barriers and changes in production and consumption patterns. The grain sector will be the hardest hit because the relatively low duties on grains in Spain and Portugal will be replaced by the European Community's variable levies after accession. The danger also exists that the European Community may attempt to use enlargement as an opportunity to achieve its long-standing desire to impose restrictions on imports of soybeans.

We strongly object to the abrupt and unilateral actions that were recently announced by the European Community to restrict U.S. grain and oilseed exports to Spain and Portugal. As proposed, these actions have been put forward in ways which violate international trading rules of the General Agreement on Tariffs and Trade (GATT), which set dangerous precedents, and which would jeopardize up to $1 billion yearly of U.S. farm exports.

The National Grange strongly supports the efforts that are being made by members of this Subcommittee, by many other Senators, and by Administration trade officials, in demanding that the European Community rescind its illegal Portuguese quotas and negotiate with us for satisfactory compensation for U.S. export markets lost as a result of higher import duties on grain into Spain.

These European actions represent a continuation of long-standing policies which, through variable levies and ineffective programs of production restraints, have caused U.S. farmers to bear an inordinately large share of the costs of restructuring the agricultural system of the European Community. Those policies have induced such high levels of E.C. grain production that extensive and unfair export subsidies to Third World markets have been used in recent years, again at the expense of the United States and other world grain suppliers.

E.C. failure to consult appropriately as required by GATT represents a high-handed and uncooperative approach to the current critical problems of the E.C., U.S. and world agriculture. Such emphasis on unilateralism exacerbates the inevitable conflicts of interest which face these long-time trading partners and strong political allies.

The temptation to solve a domestic problem at the expense of a trading partner is difficult to resist. How to move to a situation where farm policies in various countries can co-exist without causing international tensions is a major task facing agricultural trade interests in both importing and exporting countries and must be seriously addressed in the forthcoming multilateral trade negotiations (MTN).

The current dispute must be resolved by aggressive negotiations which take fully into account the serious economic damage to U.S. agriculture which is threatened by the E.C. proposals, and which will result in costs of E.C. agricultural restructuring to be bourne equitably by the members of the European Community. Failure to do so would result in further damaging tensions in U.S.-E.C. relations and would seriously undermine opportunities for a successful new round of GATT negotiations which could reverse the tides of protectionism that is now threatening the world trading system.

We commend the actions by the Secretary of Agriculture, Richard Lyng, and the United States Trade Representative Clayton Yeutter and their E.C. counterparts in lowering the level of the confrontation over the E.C. enlargement. The threats and counter threats, actions and counter actions were producing a climate wherein serious negotiations would have been extremely difficult. By buying time, we hope that the conflict can be successfully resolved.

Despite the negative effects on U.S. trade, in particular, U.S. agriculture, we agree with our Government's support for the admission of Spain and Portugal to the E.C. Nevertheless, we will strongly object to any attempts that are made by the E.C to use our political and economic considerations regarding enlargement as an opportunity to increase trade barriers in a manner that is inconsistent with their international obligations.

Thank you, Mr. Chairman, for providing the Grange with this opportunity to express our views on this vital issue that is confronting U.S. agriculture.

STATEMENT OF WILLIAM K. QUARLES, JR, VICE PRESIDENT, GOVERNMENT AFFAIRS, SUNKIST GROWERS, INC., REPRESENTING THE NATIONAL COUNCIIL OF FARMER COOPERATIVES

Mr. Chairman, I am William Quarles, vice president, Government Affairs, Sunkist Growers and a member of the National Council of Farmer Cooperatives. I appear before you today on behalf of the over 5,000 local farmer cooperatives represented by the National Council and their nearly 2 million farmer members.

National Council members handle practically every type of agricultural commodity produced in the U.S. They market these commodities domestically and around the world and furnish production supplies and credit to their farmer members and patrons. As a result, the farmer members of the National Council have a substantial interest in agricultural export developments.

EC Agricultural Restrictions

The European Community (EC) imposed restrictions effective March 1 on as much as $1 billion worth of U.S. agricultural exports to Spain and Portugal as a part of the terms under which those countries joined the EC in January.

Restrictions in Portugal include quotas on imports and consumption of oilseeds and oilseed products, and a requirement that Portugal purchase at least 15.5 percent of its grain from the EC. These new measures are illegal under the General Agreement on Tariffs and Trade (GATT).

In Spain, 20 percent tariffs on imports of corn and sorghum were replaced with the EC's "variable levy", currently equivalent to a tariff of more than 100 percent. Because Spain agreed in previous trade negotiations not to raise its tariffs on these two items, international trade rules require the EC to compensate the U.S. for the injury to our exports caused by the higher levies.

On March 31 the President announced that expeditious action is necessary and he intends to use his authority under section 301 of the Trade Act of 1974 to respond to these practices in a number of ways:

In response to the oilseeds and oilseed product quotas, the U.S. will place quotas with an equivalent restrictive effect on a similar value of EC imports into the United States.

In response to the requirement that 15.5 percent of Portuguese grain requirements come from other EC countries, the U.S. will impose tariff increases on EC imports into the U.S. to produce a comparable loss of trade.

Under section 301, the U.S. has a two-stage response to the variable levy imposed in Spain:

The U.S. will withdraw tariff "bindings" (GATT agreements not to raise tariffs above a certain level) on U.S. imports on products of comparable value to those affected by the levies imposed in Spain.

If the EC does not agree to provide adequate compensation by July 1, the U.S. will implement tariff increases on those products for which the bindings have been withdrawn so as to produce a comparable loss of trade.

The EC accession of Spain and Portugal will affect a broad range of U.S. agricultural products, many of which have long standing trade issues with the EC. This committee has received numerous testimony concerning the impacts on the major grains, oilseeds and oilseed products. The bulk of the approximately $1 billion in lost exports due to accession would be represented by these commodities. The NCFC shares their concerns and continues to stress that a viable U.S. agricultural sector cannot be maintained without fair trade to permit our competitive capabilities to work in the marketplace.

But the impacts go beyond these commodities. Indeed if you examine the commodities considered by the U.S. and the EC as candidates for retaliation and counter-retaliation, the range of commodities widens rapidly.

E.C. Action	Possible U.S. Responses	Potential EC Countermeasures
Restriction on imports and consumption of oilseeds and oilseed products.	Dollar value quota on U.S. imports from E.C. May include wine.	Products subject to control. Sunflower seed, honey, wine, bourbon, unrendered fats and offals of bovine animals.
Requirement that 15.5% of Portuguese grain imports come from other EC countries.	Increased duties fresh apples, candy, fruit juices, bakery products, ale and beer.	Products subject to control: Prunes, fruit juices, dried fruit, fresh, foliage, beer, canned corn, horsemeat.
Variable levies on Spanish imports of corn and sorghum.	Increased duties sausage, pork, cheese, leather, vegetables, olives, mineral water, wine and certain liquors.	Products subject to control: soybean cakes, corn gluten feed, almonds, wheat, rice.

Many of these commodities have had ongoing trade disputes with the EC for some time and the enlargement of the EC to include Spain and Portugal is likely to further complicate the problems if the rules of trade are not clarified. A few examples are noteworthy.

In 198. the California raisin industry joined with the California canned fruit industry in a section 301 action protesting the EC's policies with respect to those commodities. With the support of many of you on this committee the industries were able to persuade the U.S. Government to take the matter to GATT dispute settlement. After 2 1/2 years of deliberations, the GATT panel determined that U.S. rights had been violated. The resolution of the canned fruit case last November calls for a reduction in the EC processing subsidy of 25 percent for the 1986 season and a complete elimination by 1987. Since the U.S. is the main destination for Spanish exports of canned peaches, their accession to the EC will need to be monitored to ensure compliance with the resolution of GATT dispute.

With respect to raisins the success was short-lived. Dissatisfied with the panel's ruling, the EC filed an unorthodox request to reopen the record. Over strong U.S. protest, the panel acquitted and reversed its decision on raisins without significant explanation. The impetus to regulating a settlement has now been eliminated.

European production of table wine occurs principally in these countries that are members of the EC: France, Italy and Germany. With the inclusion of Spain and Portugal the EC member states will account for over one-half of total world-wide production of wine and represent six of the seven leading sources of U.S. wine

imports. EC wine producers benefit from a wide variety of subsidies. The EC, national and regional governments provide both export subsidies and domestic subsidies, the latter not being generally available within each country. As such, these subsidies are all counteravailable within the meaning of U.S. duty law. The dismantling of these subsidy programs will help restore a fair balance in world-wide trade in wine.

Over the past 16 years, the United States has sought a practical solution to the illegal Mediterranean tariffs preferences provided by the EC on citrus. Despite a GATT panel recommendation in 1984 that the EC's preferential tariff scheme has upset the balance of rights and obligations on fresh oranges and lemons from the U.S., the EC still has not given consideration to U.S. concerns.

On October 31, 1985, the President sought compensatory retaliation from the EC by increasing the duty on EC pasta by about 10 cents per pound. In counterretaliation, the EC unlawfully raised its duties on lemons from 8 percent to 20 percent and on shelled walnuts from 8 percent to 30 percent. So that the Italian pasta industry would not feel the effects of the U.S.'s duty increase, the pasta restitution payments were greatly enlarged. Since this exchange of retaliation and counterretaliation, little progress has been made in achieving a solution and there seems no resolve on the part of the EC to negotiate a change in the status quo.

While the U.S. has not been able to resolve many of these issues, we are now sending a clear signal to the EC. The Administration and Congress are making it clear that America has never been afraid to compete. When trade follows the rules, and these is an equal opportunity to compete, American agriculture is as competitive as any. This is fair trade and it should not be impaired. However, when this condition does not exist, it is unfair trade, and we must seek a correction.

No one wins in a trade war. It is understood that there is some possibility that bilateral negotiations on accession may lead to a near-term correction of the Portuguese restrictive practices and an adequate offer of compensation in connection with Spanish trade restrictions. I believe we would all welcome such a result. In the absence of such a result, the U.S. would need to move forward with the proposed retaliatory action while continuing to pursue other U.S.-E.C. disputes, such as those mentioned here, on a separate track.

This Committee is to be commended for their outstanding efforts in formulating an aggressive trade title in the Food Security Act of 1985 and incorporating a domestic policy consistent with our international objectives. The Targeted Export Assistance program (TEA) is providing immediate promotional assistance to many U.S. commodities damaged by unfair trade practices. Your continuing concern and vigilance with respect to the operation of world markets is vital at this time. These markets hold the key to the future prosperity of U.S. agriculture and it is essential that the U.S. defend and promote a more open, worldwide trading system.

I thank you for this opportunity to appear before the Committee and I would be happy to answer any questions.

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